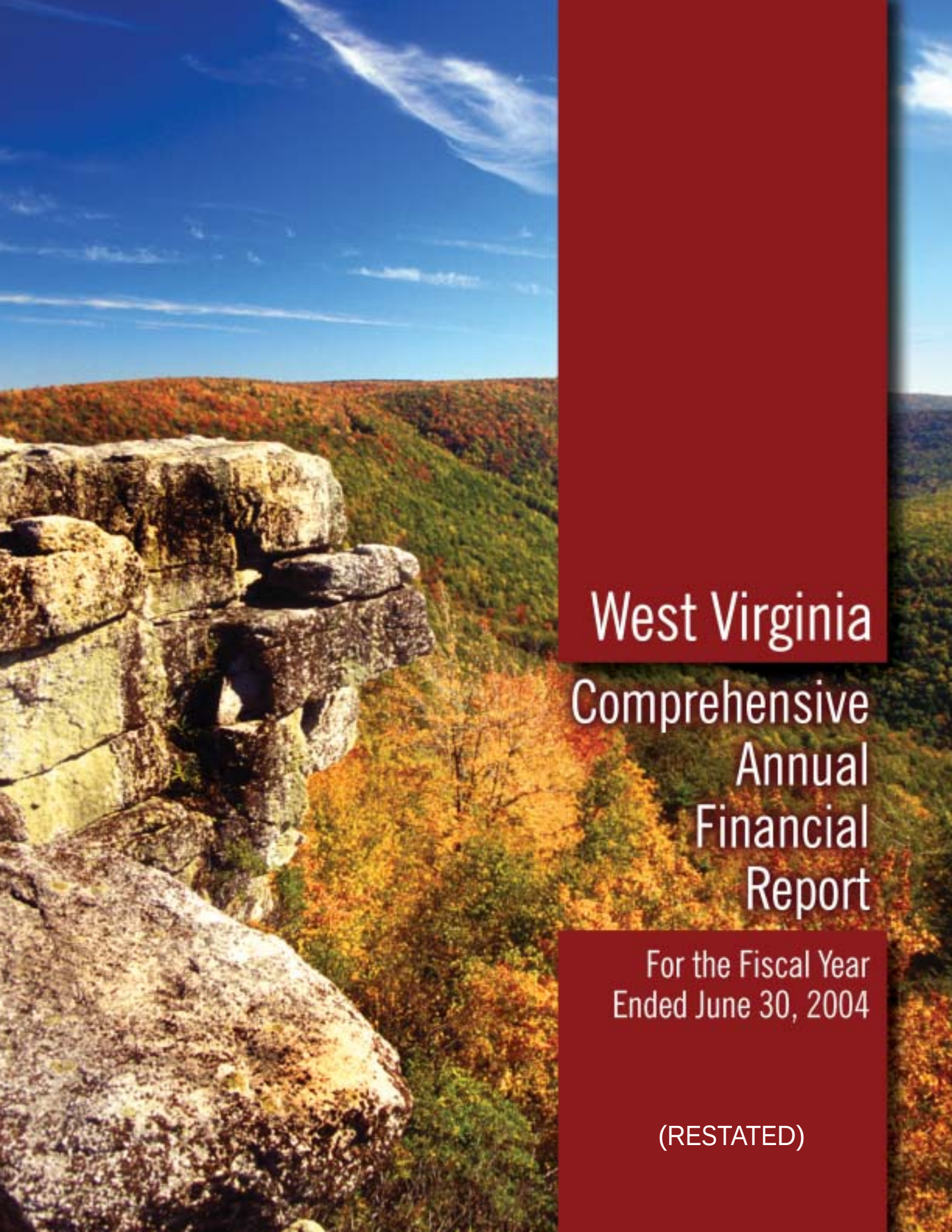

West Virginia

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

(RESTATED)

West Virginia

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2004 (Restated)

Joe Manchin III
Governor

Robert W. Ferguson, Jr.
Cabinet Secretary
Department of Administration

Andrew J. Fizer, CPA
State Comptroller
Department of Administration

Prepared by the
Financial Accounting
and Reporting Section

Governor Joe Manchin III

State of West Virginia
Joe Manchin III
Governor

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To the Honorable Members of the Legislature
And the Citizens of West Virginia

I am pleased to provide you with the State of West Virginia Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004. An independent certified public accounting firm has audited the basic financial statements contained in this report.

The CAFR demonstrates West Virginia's commitment to financial accountability and national standards. This document provides the Legislature and the citizens of West Virginia with the state's financial data. It can be accessed on the Internet at www.wvfinance.state.wv.us.

This report was compiled with the help of individuals throughout state government. Each state agency provided clear, concise information to ensure the highest level of financial accountability.

Very truly yours,

Joe Manchin III
Governor

JM/po

ACKNOWLEDGMENTS

Report prepared by:

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Special appreciation is given to all personnel throughout the State whose extra effort to contribute accurate, timely financial data for their agencies made this report possible. The technical support of Information Services and Communications has been invaluable. Thanks to the Division of Tourism for their pictorial and technical assistance.

We invite you to visit our web site: www.wvfinance.state.wv.us

STATE OF WEST VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

INTRODUCTORY SECTION

Page

Letter of Transmittal x
GFOA Certificate of Achievement xvi
Organizational Chart xvii
State of West Virginia Principal Officials xviii

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS 2
MANAGEMENT'S DISCUSSION AND ANALYSIS 4

BASIC FINANCIAL STATEMENTS:
GOVERNMENT-WIDE FINANCIAL STATEMENTS:
Statement of Net Assets 20
Statement of Activities 22
FUND FINANCIAL STATEMENTS:
Balance Sheet - Governmental Funds 25
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 26
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds 27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities 28
Statement of Net Assets - Proprietary Funds 30
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds 32
Statement of Cash Flows - Proprietary Funds 34
Statement of Fiduciary Net Assets - Fiduciary Funds 39
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds 40
Combining Statement of Net Assets - Discretely Presented Component Units 44
Combining Statement of Activities - Discretely Presented Component Units 46

FINANCIAL SECTION (Continued)

Page

NOTES TO THE FINANCIAL STATEMENTS:
- Note 1 - Summary of Significant Accounting Policies 48
- Note 2 - Restatements, Restricted, and Reserved Balances 69
- Note 3 - Fund Deficits 71
- Note 4 - Cash and Investments 73
- Note 5 - Receivables 80
- Note 6 - Interfund Balances 84
- Note 7 - Interfund Transfers 86
- Note 8 - Restricted Assets 88
- Note 9 - Capital Assets 90
- Note 10 - Long-Term Obligations 93
- Note 11 - Leases 103
- Note 12 - Retirement Systems 105
- Note 13 - Other Postemployment Benefits 111
- Note 14 - Risk Management 112
- Note 15 - Commitments and Contingencies 121
- Note 16 - Subsequent Events 127
- Note 17 - Restatement of 2004 Financial Statements 129

REQUIRED SUPPLEMENTARY INFORMATION:
- Budgetary Comparison Schedule 134
- Notes to Required Supplementary Information - Budgetary Reporting 137
- Budgetary Comparison Schedule, Budget-to-GAAP Reconciliation 141
- Pension Plans - Schedule of Funding Progress 142
- Notes to Required Supplementary Information - Pension Plans - Schedule of Funding Progress 143

COMBINING FINANCIAL STATEMENTS AND SCHEDULES:
- Combining Balance Sheet - Nonmajor Governmental Funds 148
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds 150
- Combining Balance Sheet - Nonmajor Special Revenue Funds 154
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds 156
- Combining Balance Sheet - Nonmajor Debt Service Funds 159
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Debt Service Funds 160
- Combining Statement of Fund Net Assets - Internal Service Funds 162

FINANCIAL SECTION (Continued)

Page

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds 163
Combining Statement of Cash Flows - Internal Service Funds 164
Combining Statement of Net Assets - Nonmajor Proprietary Funds 167
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Proprietary Funds 168
Combining Statement of Cash Flows - Nonmajor Proprietary Funds 169
Combining Statement of Net Assets - Pension Trust Funds 172
Combining Statement of Changes in Net Assets - Pension Trust Funds 174
Combining Statement of Fiduciary Net Assets - Investment Trust Funds 177
Combining Statement of Changes in Plan Net Assets - Investment Trust Funds 177
Combining Statement of Fiduciary Net Assets - Agency Funds 179
Combining Statement of Changes in Assets and Liabilities - Agency Funds 180
Combining Statement of Net Assets - Nonmajor Discretely Presented Component Units 182
Combining Statement of Activities - Nonmajor Discretely Presented Component Units 184

STATISTICAL SECTION

Table 1 - Expenditures by Function - All Governmental Fund Types 188
Table 2 - Revenues by Source - All Governmental Fund Types 190
Table 3 - Ratio of Outstanding General Obligation Bonds to Assessed Value and Net Debt Per Capita 192
Table 4 - Ratio of Annual Debt Service Expenditures for General Bonded Debt to General Fund Revenues and Expenditures 192
Table 5 - Revenue Bond Coverage 193
Table 6 - Demographic Statistics 194
Table 7 - Economic Characteristics 194
Table 8 - Property Values, Retail Sales, Bank Deposits, and Bank Loans 195
Table 9 - Twenty-five Largest Private Sector Employers in West Virginia 196
Table 10 - Miscellaneous Public Education Statistics 197
Table 11 - Miscellaneous Higher Education Statistics 198
Table 12 - Miscellaneous Statistics 199

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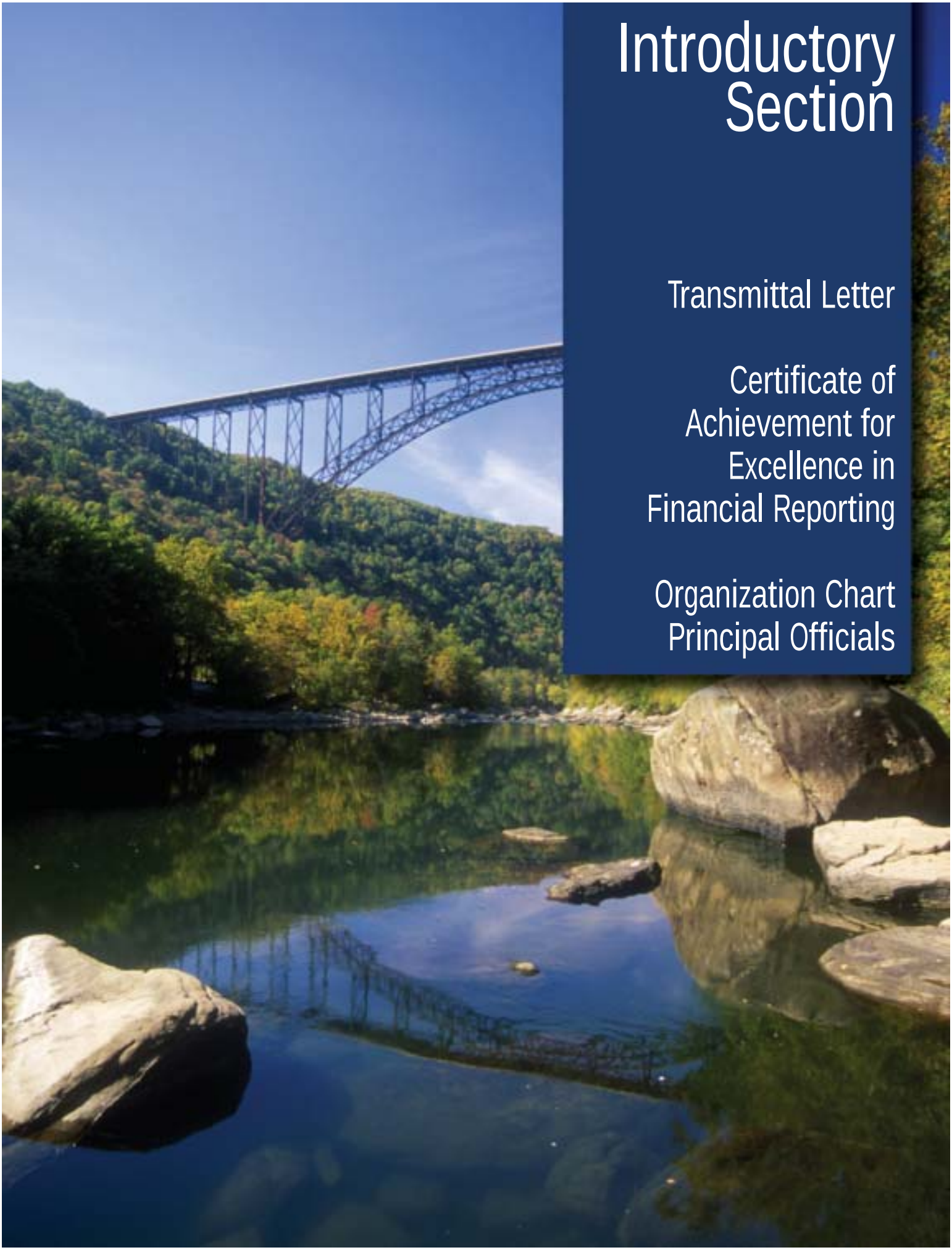

Introductory Section

Transmittal Letter

Certificate of Achievement for Excellence in Financial Reporting

Organization Chart
Principal Officials

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
DIVISION OF FINANCE

JOE MANCHIN III
GOVERNOR

ROBERT W. FERGUSON, JR.
CABINET SECRETARY

February 28, 2005

The Honorable Joe Manchin III, Governor
The Honorable Members of the West Virginia Legislature
The Citizens of West Virginia

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of West Virginia for the fiscal year ended June 30, 2004. This report has been prepared by the Financial Accounting and Reporting Section within the Division of Finance of the Department of Administration.

The CAFR has been prepared in conformity with the reporting model outline by the Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35, and other related statements. This reporting model's objective is to provide a clear picture of the government as a single, unified entity as well as to provide traditional fund based financial statements. The State of West Virginia's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP).

The independent audit of the financial statements of the State of West Virginia is part of a broader, federally mandated "Single Audit" designed to meet the requirements of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on the audited government's internal controls and compliance with requirements applicable to major programs. These reports are available in the State of West Virginia's separately issued Single Audit Report.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes Management's Discussion and Analysis, Government-wide Financial Statements, and Fund Financial Statements for Governmental Funds, Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units. The Financial Section also includes the Notes to the Financial Statements, and Required Supplementary Information, as well as the report of the independent auditors on the basic financial statements and schedules. The statistical section includes selected financial and demographic information generally presented on a multiyear basis.

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GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the report of the independent auditors.

The CAFR consists of management's representations concerning the financial information of the State of West Virginia. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with accounting principles generally accepted in the United States. Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The State of West Virginia's financial statements have been audited by Ernst & Young. The independent auditor concluded, based upon their audit and the reports of other auditors, there was a reasonable basis for rendering an unqualified opinion.

Profile of the Government

The State of West Virginia provides a full range of services including: education, social and health services, transportation, public safety, conservation of natural resources, and economic development. In addition to general government activities, this report includes various discretely presented component units which are financially accountable to the State, or for which the nature and significance of their relationship with the state are such that their exclusion would cause this report to be misleading or incomplete. The criteria used to determine financial accountability of a particular entity are the appointment by a state official of a voting majority of the entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to or impose specific financial burdens on the State. See Note 1 (Summary of Significant Accounting Policies) for a comprehensive discussion of the criteria used in determining the State's financial reporting entity.

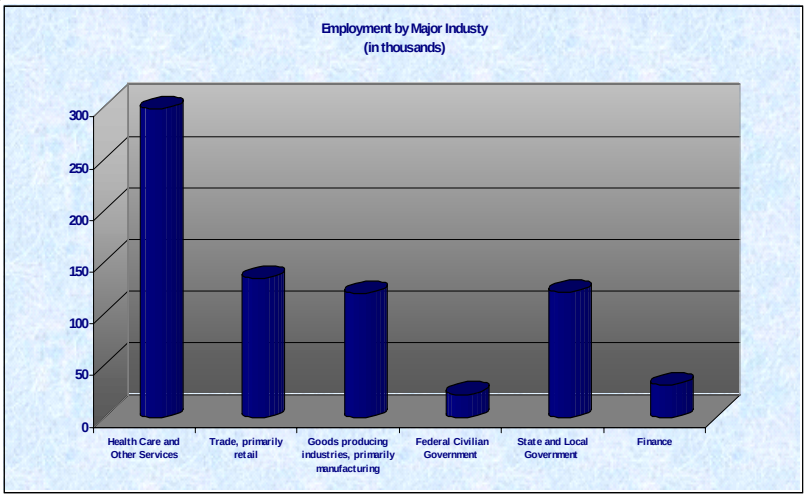
Budgetary control is maintained through legislative appropriations and the Executive Branch quarterly allotment process. Agencies submit budgetary requests to the State Budget Office. The State Budget Office compiles the Executive Budget on behalf of the Governor who submits it to the Legislature. After the approval of the budget, the State Budget Office maintains control over the spending patterns of the State at the activity level and by use of the quarterly allotments. The State Auditor exercises control over spending at the annual appropriation level. All appropriations, except funds which are reappropriated, expire 31 days after fiscal year-end. The Department of Administration's Finance Division has completed a project to provide additional information related to budget priorities and goals, including acknowledgment of significant accomplishments of various agency programs.

Economic Conditions and Outlook

West Virginia's economy stabilized during the first half of 2004. Long-term growth depends in part on the national economy. The State's economy is dominated by service industries while the goods producing sector, which includes manufacturing, construction, and mining, represents 16% of all employment. The following chart depicts employment by industry at June 30, 2004. West Virginia's total job loss from March 2001, the beginning of the national recession, to March 2004 hit 15,000, which translates into a percentage loss of (.7 %) per year. This was similar to the national rate of job loss during the period, (.5%) per year. West Virginia job growth is expected to rebound during the last half of 2004, as it is nationally. However, it is expected to take until 2006 for the State to regain its 2000 employment level.

Employment by Major Industry (in thousands)

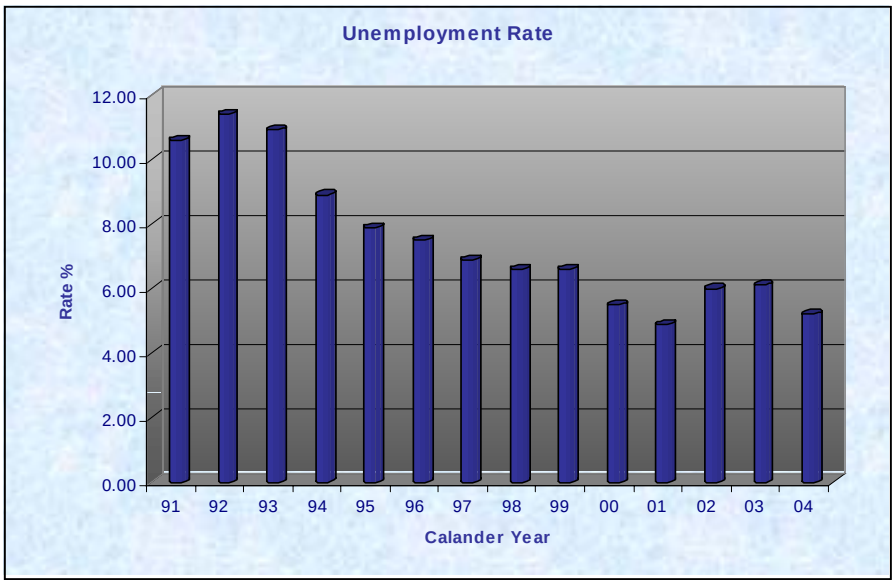
	2003	2004
Health Care and Other Services	298	298
Trade, Primarily Retail	136	134
Goods Producing Industries, Primarily Manufacturing	119	120
Government:		
Federal Civilian	22	22
State and Local	120	121
Finance	31	31
Total	726	726



Source: West Virginia Economic Outlook 2003 and 2004 published by the Bureau of Business & Economic Research of West Virginia University.

The following charts illustrate trends in West Virginia's economy:

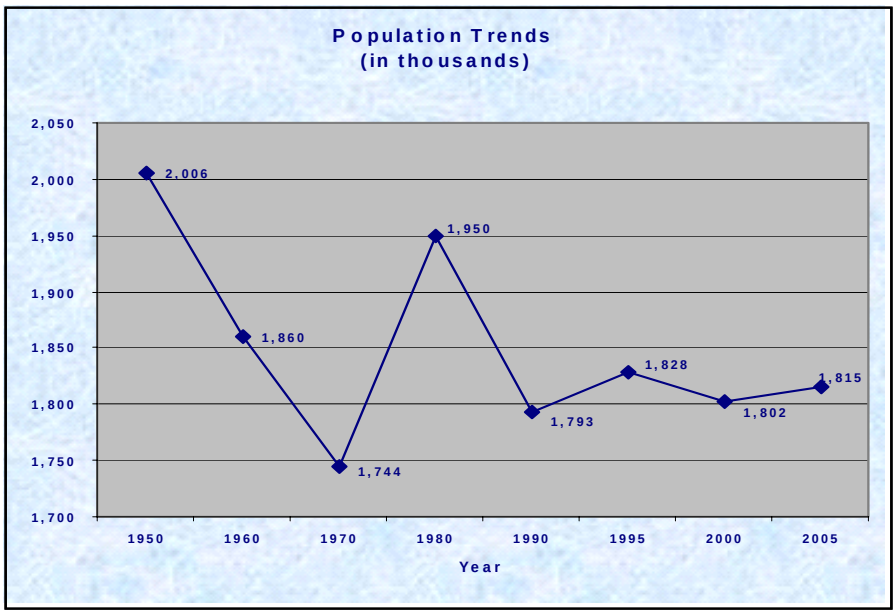
WestVirginia's seasonally adjusted unemployment rate dropped to 5.2% in May 2004, after peaking at 6.2% during most of 2003. The State rate has remained near the national rate during the last three years.



Population Trends (in thousands)

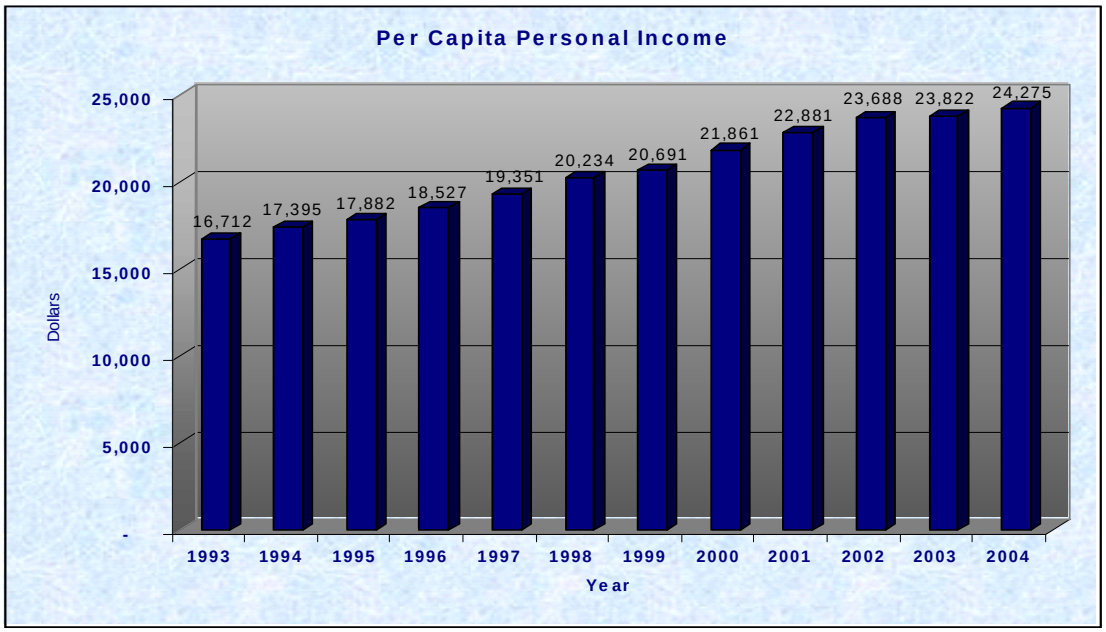
1950	2,006	
1960	1,860	(7.3)%
1970	1,744	(6.2)%
1980	1,950	11.8%
1990	1,793	(8.1)%
1995	1,828	2.0%
2000	1,802	(1.4)%
2005	1,815	0.1%

Source: West Virginia Economic Outlook 2002, 2003 and 2004 published by the Bureau of Business & Economic Research of West Virginia University.



Population levels have stabilized and are projected to remain near current levels through 2014.

Real per capita personal income growth for 2004 was 1.9% and is forecast to grow 2.0% annually between 2004 and 2014.



West Virginia's real personal income remains well below the national average, but even on an inflation-adjusted basis, the State continues to gradually improve its standard of living. The State's real per capita personal income has gradually risen since the mid 1980's. As of 2003, West Virginia's per capita personal income was $23,158 (before adjusting for inflation), which was 24.9% below the national level of $30,832. However, the State has made progress during the last two years in closing the gap with the national economy. The gap is now at its lowest level since 1995.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of West Virginia for its Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 1995 through 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA. Other State entities that have been awarded the Certificate of Achievement include BRIM, PEIA, the Department of Transportation, the Housing Development Fund, the Parkways, Economic Development and Tourism Authority, the West Virginia Lottery, and the West Virginia Prepaid College Plan.

Acknowledgments

The annual budget document, prepared by the State Budget Office, provides additional information related to budget priorities and goals, including acknowledgment of significant accomplishments of various agency programs. The budget document has received the GFOA's Award for Distinguished Budget Presentation Program for the fiscal years 1997 through 2003 budgets.

The CAFR is an example of the Governor's unwavering belief in and commitment to the State's financial accountability. Acknowledgment is given to the Legislature and its leadership for their commitment to sound budgeting and to meeting the financial obligations of the State. This report would not be possible without the support of all West Virginia state agencies. The State's continued success directly depends upon their cooperation and support.

Sincerely,

Andrew Fizer, CPA
State Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of West Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Nancy L. Zielke

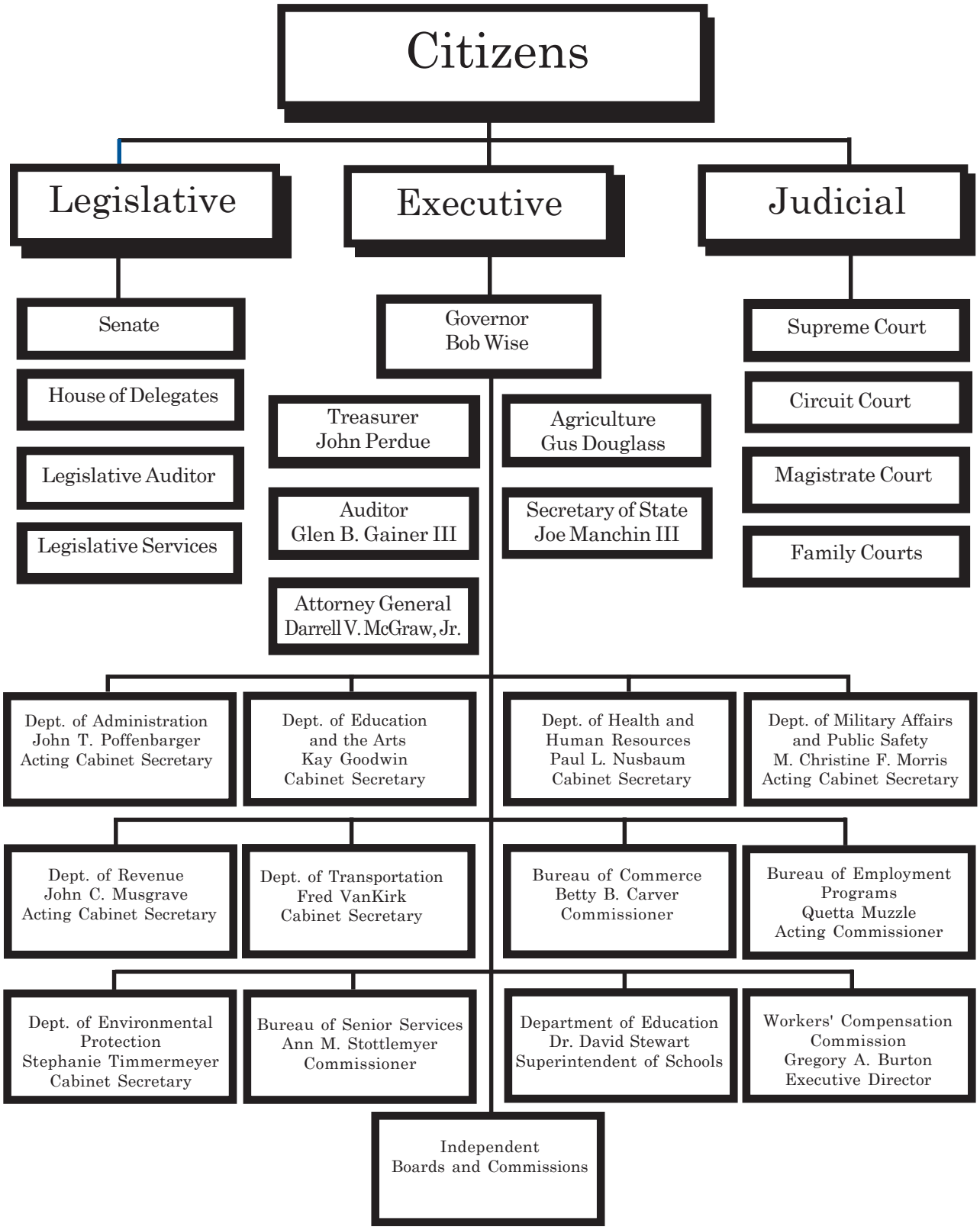
President

Jeffrey L. Esser

Executive Director

West Virginia

Organization Chart
As of December 31, 2004



State of WEST VIRGINIA

Principal Officials

Executive Branch

Governor
Bob Wise

Agriculture
Commissioner
Gus Douglass

Attorney General
Darrell V. McGraw, Jr.

State Auditor
Glen B. Gainer III

Secretary of State
Joe Manchin III

State Treasurer
John Perdue

Legislative Branch

President of the Senate
Earl Ray Tomblin

Speaker of the House
Robert S. Kiss

Chairman
Senate Finance
Walt Helmick

Chairman
House Finance
Harold K. Michael

Judicial Branch

Supreme Court
Chief Justice
Elliott E. Maynard

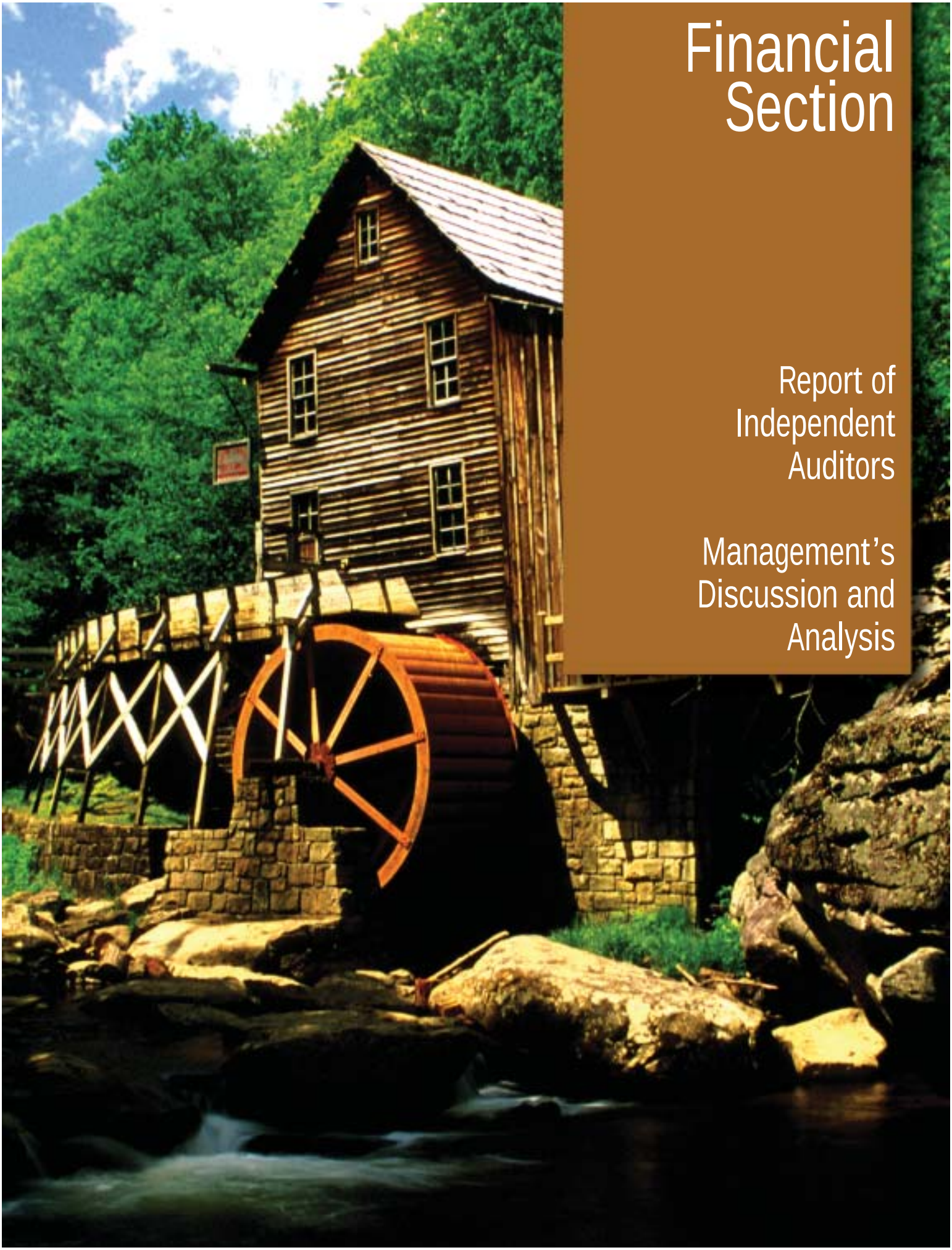
Supreme Court Justice
Joseph P. Albright

Supreme Court Justice
Robin Jean Davis

Supreme Court Justice
Warren R. McGraw

Supreme Court Justice
Larry V. Starcher

As of December 31, 2004



Financial Section

Report of Independent Auditors

Management's Discussion and Analysis

ERNST & YOUNG

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Report of Independent Auditors

The Honorable Joe Manchin III, Governor
of the State of West Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of West Virginia (the State) as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities within the governmental activities, the business-type activities, the aggregate discretely presented component units, the major funds, and the aggregate remaining fund information, which represent 75 percent of total assets, 93 percent of net assets, and 31 percent of total revenues for the governmental activities; 84 percent of total assets, 95 percent of net assets, and 79 percent of total revenues for the business-type activities; 75 percent of total assets, 86 percent of net assets, and 89 percent of total revenues for the aggregate discretely presented component units; 100 percent of total assets, net assets, and total revenues of the following major funds—Transportation, West Virginia Infrastructure and Jobs Development Council, West Virginia Lottery, Water Pollution, Workers' Compensation, and Employment Security; and 91 percent of total assets, 93 percent of net assets/fund balance, and 89 percent of the total revenues/additions for the aggregate remaining fund information, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us. The report of other auditors for the West Virginia Higher Education Fund (Higher Education, a discretely presented component unit) included an explanatory paragraph for reasons discussed in Notes 1 and 2 in the accompanying financial statements. Our opinion, insofar as it relates to the amounts included for certain entities within the governmental activities, the business-type activities, the aggregate discretely presented component units, certain major funds, and certain entities within the aggregate remaining fund information, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of West Virginia as of June 30, 2004, and

the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 2 in the accompanying financial statements, Higher Education changed its financial statement presentation to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14 as of July 1, 2003; and the State has implemented Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, and restated certain net asset balances as of July 1, 2003.

As discussed in Note 17 to the basic financial statements, the government-wide and governmental funds financial statements have been restated to reflect the West Virginia Economic Development Authority State of West Virginia Excess Lottery Revenue Bonds Series 2004 and related activity.

The management's discussion and analysis on pages 4 through 17, the budgetary comparison information on pages 130 through 137, and pension plans schedule of funding progress on pages 138 to 139 are not a required part of the basic financial statements but are supplementary information required by the GASB. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of West Virginia's basic financial statements. The accompanying introductory section, combining and individual nonmajor fund financial statements and schedules on pages 142 through 181, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ernst + Young LLP

February 11, 2005, except for Note 17, as
to which the date is June 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Restated)

This section of the State of West Virginia's Comprehensive Annual Financial Report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:
The assets of the primary government exceeded its liabilities at the close of the fiscal year by $4.4 billion (reported as "net assets"). Governmental activities reported $6.6 billion in net assets (a $446 million increase, up 7.2% from last year), while the business-type activities reported a deficit of $2.2 billion, a decrease of $236 million in the deficit.

Fund Level:
For fiscal year 2004, the governmental funds reported a combined ending fund balance of $2.1 billion, an increase of $324 million, or 18.4%, in comparison with the prior year.

At the end of June 30, 2004, the unreserved fund balance for the general fund was $294 million, or 4.6%, of total general fund expenditures.

Long-Term Obligations:
The net increase in the State's long-term governmental obligations was $182 million. This increase includes bond and lease principal payments of $80 million, offset by new revenue bonds and capital leases of $311 million. Significant changes in the obligation included increases in compensated absences of $24 million and the net pension obligation of $26 million. These increases were offset by a decrease in the environmental liabilities of $125 million, primarily due to a current year change in the estimated abandoned oil and gas well liability, which is explained in more detail in Note 15.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of West Virginia's basic financial statements. The basic financial statements include: the government-wide financial statements, fund financial statements, and notes to the financial statements.

The basic financial statements include two kinds of statements that present different views of the State. The statement of net assets and the related statement of activities are *government-wide financial statements* that provide both long-term and short-term information about the State's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the State's government, reporting the State's operations in more detail than the government-wide statements. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that presents budgetary comparisons and pension plans schedule of funding progress as required by the Governmental Accounting Standards Board. In addition to these required elements, we have included a *combining financial statements and schedules* section that provides details about our nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component units, each of which are added together and presented in single columns in the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The statement of net assets and the statement of activities together comprise the government-wide statements, which report information about the State as a whole using the full accrual basis of accounting similar to those used by private-sector companies. This means all revenues and expenses are recognized regardless of whether cash has been received or paid, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. In evaluating the State's overall condition additional nonfinancial factors should be considered, such as the State's economic outlook, changes in its demographics, and the condition of its capital assets, including infrastructure.

The activities on the government-wide financial statements are divided into three categories:

- *Governmental activities* – Most of the State's basic services are included under these activities, such as education, health and human resources, military affairs and public safety, judicial, and administration. Personal income taxes and consumer sales taxes finance most of these activities.

- *Business-type activities* – The State charges fees to customers to help it cover all or a significant portion of the costs of certain services it provides. The Workers' Compensation Fund, Public Employees' Insurance Agency, and the Board of Risk and Insurance Management, among other funds, are examples of these activities.

- *Component units* – The State includes several other entities in its report, for which it is financially accountable - such as West Virginia Housing Development, Parkways, Economic Development and Tourism Authority and Higher Education. Separately issued financial statements are also available for these component units.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's *major funds*, not the State as a whole. Funds are accounting devices that the State uses to track specific sources of funding and spending for particular purposes. Certain funds are required by the West Virginia Constitution and others are required by bond covenants. The State Legislature establishes other funds to control and manage money for particular purposes or to show certain taxes and grants are used properly.

The State has three kinds of funds:

- *Governmental funds* – Most of the State's basic services are included in governmental funds, which focus on (1) *cash and other financial assets* that may readily be converted to cash flow in and out and (2) the balances left at year-end available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view to help determine whether there are more or fewer financial resources that may be spent in the near future to finance the State's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the pages immediately following each statement, explaining the relationship (or differences) between them and the government-wide statements.

- *Proprietary funds* – Proprietary funds include enterprise funds and internal service funds. They account for state activities that are operated in a manner similar to private-sector businesses. Like the government-wide statements, proprietary fund statements are

presented using the accrual basis of accounting and provide both long- and short-term financial information. Services for which the State charges external customers a fee are generally reported in enterprise funds. Activities where customers are mostly other State agencies are accounted for in internal service funds. The internal service funds are consolidated with the governmental activities on the government-wide statements because they predominantly benefit the governmental rather than business-type activities.

- *Fiduciary funds* – Fiduciary funds account for assets held for the benefit of parties outside of state government. The State is the trustee, or *fiduciary*, for its employees' pension plans and other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

Reconciliation Between Government-wide and Fund Statements

The financial statements contain schedules that reconcile the differences between the government-wide financial statements (long-term focus, accrual accounting) and the fund financial statements (short-term focus, modified accrual accounting). The following summarizes the primary differences between modified accrual to accrual accounting:

- Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements.

- Capital outlay spending results in expenditures on the governmental fund statements; however, on the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. The excess of capital outlay over depreciation expense is included on the government-wide statement of activities.

- Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces the long-term liabilities on the government-wide statement of net assets.

- Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities and net revenue of the internal service funds are reported with governmental activities on the government-wide statements.

- Certain tax revenues that are earned, but not available, are reported as revenue on the government-wide statements, but are deferred revenue on the governmental fund statements.

- Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues and expenditures in the funds.

Notes to the Financial Statements

The notes provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

Required Supplementary Information

Following the Basic Financial Statements are required supplementary information related to budgetary comparison schedules for governmental funds with legally adopted budgets and a schedule of funding progress for pension plans along with notes with explanatory information.

Combining Financial Statements and Schedules

The combining financial statements and schedules include combining statements for the State's nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component units.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The State's combined net assets (governmental and business-type) increased $682 million over the course of this fiscal year's operations. The net assets of the governmental activities increased $446 million, or 7.2%, and business-type activities had an increase of $236 million, or 9.7%. As described in Note 2 to the basic financial statements, the beginning of the year net assets of the governmental activities was increased by $27.8 million in conjunction with Technical Bulletin No. 2004-1, "Tobacco Settlement Revenue Recognition."

Net Assets as of June 30
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	Restated 2003	2004	2003	2004	Restated 2003
Current and Other Assets	$2,959,728	$2,538,981	$ 2,616,684	$ 2,383,644	$ 5,576,412	$ 4,922,625
Capital Assets	7,023,555	6,733,915	9,372	10,900	7,032,927	6,744,815
Total Assets	9,983,283	9,272,896	2,626,056	2,394,544	12,609,339	11,667,440
Current and Other Liabilities	936,943	841,151	995,110	975,860	1,932,053	1,817,011
Long-Term Liabilities	2,437,958	2,269,238	3,831,357	3,854,952	6,269,315	6,124,190
Total Liabilities	3,374,901	3,110,389	4,826,467	4,830,812	8,201,368	7,941,201
Net Assets:						
Invested in Capital Assets, Net of Related Debt	6,196,704	5,910,605	9,372	10,900	6,206,076	5,921,505
Restricted	1,078,859	772,580	687,891	809,685	1,766,750	1,582,265
Unrestricted (Deficit)	(667,181)	(520,678)	(2,897,674)	(3,256,853)	(3,564,855)	(3,777,531)
Total Net Assets (Deficit)	$6,608,382	$6,162,507	$(2,200,411)	$(2,436,268)	$ 4,407,971	$ 3,726,239

Net Assets

The largest component of the State's net assets is the amount invested in capital assets (e.g., land, buildings, equipment, infrastructure, and others), less any related debt outstanding needed to acquire or construct the assets. Capital assets are used to provide services to citizens; therefore, they are not available for future spending or to pay off their related liabilities. As of June 30, 2004, unrestricted net assets are in a deficit position of $3.6 billion. This deficit is the result of, among other things, the unfunded Workers' Compensation, Board of Risk and Insurance Management, and Prepaid Tuition obligations, increased Medicaid expenses, substantial unfunded long-term liabilities related to environmental programs, net pension obligations, and revenue bonds issued to fund local school construction and economic development grants which exceed currently available resources.

Restricted net assets comprise 40% of total net assets and are subject to constitutional, legal, or external constraints on how they can be used. Net assets that are restricted include funds for construction projects, debt service, lending activities, and medical and health care programs of the State.

Changes in Net Assets

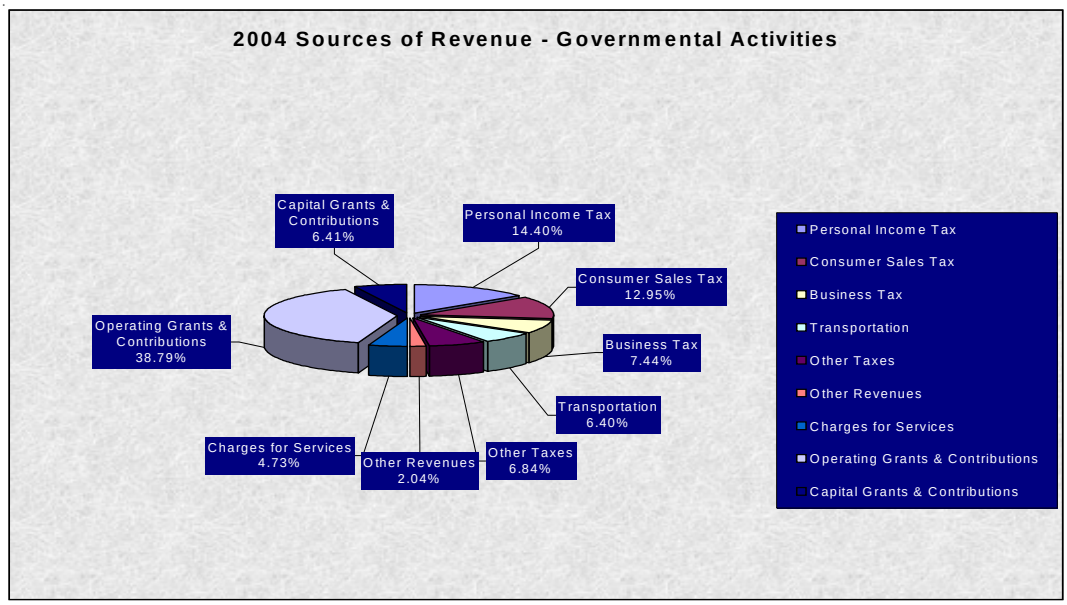
The charts below and on the next page represent financial information derived from the government-wide Statement of Activities and reflects the State's total revenues, expenses, and changes in net assets for the years ended 2004 and 2003 (expressed in thousands):

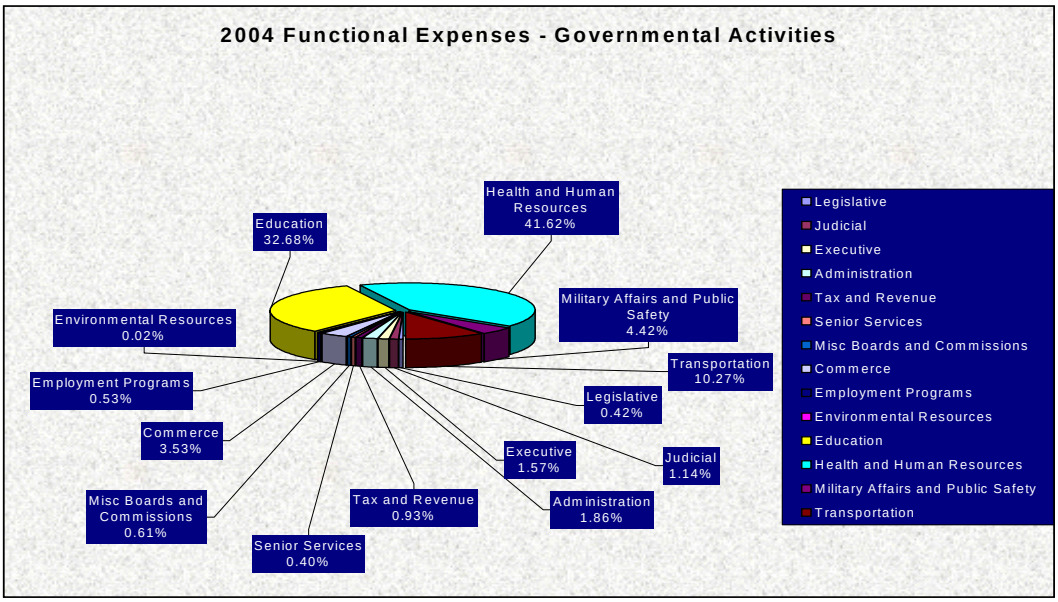
	Governmental Activities		Business-type Activities		Total Primary Government	
Revenues	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Program Revenues:						
Charges for Services	$ 352,058	$ 309,311	$ 2,748,015	$ 2,341,763	$3,100,073	$2,651,074
Operating Grants and Contributions	2,891,648	2,662,322	21,681	30,733	2,913,329	2,693,055
Capital Grants and Contributions	478,017	422,602	—	—	478,017	422,602
General Revenues:						
Personal Income Tax	1,073,512	1,048,172	—	—	1,073,512	1,048,172
Consumer Sales Tax	965,378	917,072	—	—	965,378	917,072
Business Taxes	554,734	372,044	—	—	554,734	372,044
Transportation Taxes	477,159	397,224	—	—	477,159	397,224
Other Taxes	509,676	683,727	—	—	509,676	683,727
Other Revenues	152,472	243,001	38,920	81,987	191,392	324,988
Total Revenues	7,454,654	7,055,475	2,808,616	2,454,483	10,263,270	9,509,958
Program Expenses:						
Legislative	30,623	28,009	—	—	30,623	28,009
Judicial	83,653	77,487	—	—	83,653	77,487
Executive	115,413	127,350	—	—	115,413	127,350
Administration	136,960	148,812	—	—	136,960	148,812
Commerce	259,071	225,886	—	—	259,071	225,886
Environmental Protection	1,410	71,278	—	—	1,410	71,278
Employment Programs	39,007	35,115	—	—	39,007	35,115
Education	2,399,688	2,373,873	—	—	2,399,688	2,373,873
Health and Human Resources	3,056,163	2,683,578	—	—	3,056,163	2,683,578
Military Affairs and Public Safety	324,636	296,165	—	—	324,636	296,165
Tax and Revenue	68,596	39,705	—	—	68,596	39,705
Transportation	753,901	755,565	—	—	753,901	755,565
Senior Services	29,271	28,523	—	—	29,271	28,523
Miscellaneous Board and Commissions	45,145	30,177	—	—	45,145	30,177
Interest on Long-term Debt	76,406	74,027	—	—	76,406	74,027
West Virginia Lottery	—	—	776,124	670,041	776,124	670,041
Workers' Compensation Fund	—	—	579,433	1,276,891	579,433	1,276,891
Employment Security	—	—	195,359	224,897	195,359	224,897
Water Pollution Control Revolving Fund	—	—	1,914	1,752	1,914	1,752
Public Employees' Insurance Agency	—	—	449,905	410,413	449,905	410,413
Board of Risk and Insurance Management	—	—	96,658	82,591	96,658	82,591
Other Nonmajor Business-type	—	—	62,202	55,082	62,202	55,082
Total Expenses	7,419,943	6,995,550	2,161,595	2,721,667	9,581,538	9,717,217
Increase (Decrease) in Net Assets Before Transfers	34,711	59,925	647,021	(267,184)	681,732	(207,259)
Transfers	411,164	355,533	(411,164)	(355,533)	—	—
Increase (Decrease) in Net Assets	445,875	415,458	235,857	(622,717)	681,732	(207,259)
Net Assets (Deficit), Beginning of Year, as Adjusted	6,162,507	5,719,217	(2,436,268)	(1,813,551)	3,726,239	3,905,666
Net Assets (Deficit), End of Year	$6,608,382	$6,134,675	$(2,200,411)	$(2,436,268)	$4,407,971	$3,698,407

Governmental Activities

The following charts depict revenues and expenses, respectively, of the governmental activities for the fiscal year. The State's total governmental activities increased net assets by $35 million before transfers of $411 million from business-type activities.

Approximately 41% of the total revenues came from personal income, consumer sales, business taxes, and transportation taxes, while 45% was in the form of grants and contributions (see chart below). The State's governmental activities expenses include 42% for health and human resources and 33% for education (see chart below).





Business-type Activities

Business-type activities increased the State's net assets by $647 million before transfers of $411 million to governmental activities. Significant contributors to this change were:

- The West Virginia Lottery gaming receipts exceeded expenses by approximately $453 million. Of this amount, $250,000 was not transferred out to other funds based upon statutory limitations. Lottery's cash and cash equivalents increased by 142% and accounts payable increased by 224% due to increased revenues and the timing of distributions.

- The Workers' Compensation Fund, the Board of Risk and Insurance Management and Public Employees' Insurance Agency had billed premiums in excess of incurred claims, in the amount of $125 million, $19 million, and $79 million, respectively. This net increase of operating revenue was the primary contributing factor to the increase of cash and cash equivalents included in current assets from the prior year. Workers' Compensation's $210 million restricted investments at the end of the prior year were released in 2004 to be expended for WCF liabilities, causing an increase in cash and cash equivalents.

- Employment Security incurred a net loss before transfers of approximately $16 million. This improvement from the prior year net loss of $37 million was primarily due to cost control over expenses, which were $29 million less in 2004.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements.

Governmental Fund Balances at June 30, 2004
(Expressed in Thousands)

	General Fund	Transportation	West Virginia Infrastructure and Jobs Development Council	Nonmajor Funds	Total
Reserved	$529,986	$ 30,692	$301,711	$462,240	$1,324,629
Unreserved, Designated	—	—	138,670	—	138,670
Unreserved	293,847	174,411	61,007	97,285	626,550
Total	$823,833	$205,103	$501,388	$559,525	$2,089,849

At the end of the current fiscal year, the State's governmental funds reported an ending fund balance of $2.1 billion, an increase of $324 million in comparison with the prior year. Of this amount, $25 million related to the nonmajor funds, including the Tobacco Settlement Medical Trust Fund which increased $46 million and the Capital Projects Funds which decreased $56 million, primarily due to capital outlay for construction of buildings and roads, and the Debt Service Funds increased by $35 million due to transfers in and bond proceeds in the Economic Development Project Fund. Approximately 30% of the total fund balance is unreserved and available for spending in the coming year. The remainder of the fund balance is reserved, indicating it is not available for spending because it has been committed to pay debt service ($132 million); to fund capital projects ($137 million); to be held in permanent funds for education and tobacco related health services ($188 million); or for a variety of other specific purposes ($868 million).

The general fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the general fund was $294 million, while total fund balance reached $824 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 4.6% of total general expenditures, while total fund balance represents 12.9% of the same amount. Beginning in 2004, business franchise tax has been combined into the corporate net income tax line item in the financial statements.

The Department of Health and Human Services' expenditures increased approximately $373 million over the prior year, primarily due to increased costs associated with the Medicaid program.

Transportation had an unreserved fund balance of $174 million, up 13% from the prior year. The reserved balance of $31 million is primarily for inventory. Transportation revenues were up $7 million primarily due to cost containment measures (expenditures down $14 million) which offset the lower than anticipated tax revenues and the impact of a severe winter.

The West Virginia Infrastructure and Jobs Development Council's total fund balance increased $81 million and the unreserved fund balance decreased $8 million. The reserved fund balance, $440 million (up by $89 million), is money committed but not distributed to entities for loans/grants and loans receivable ($269 million) which are not available for appropriation. The decrease of $1.8 million in revenues is due to lower investment earnings. Expenditures increased by $4 million.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Proprietary funds are comprised of enterprise and internal service funds. Enterprise funds are used when services the State provides are charged to external customers. Internal service funds are used when services are provided to other state agencies. The four major enterprise funds include the West Virginia Lottery, Water Pollution, Workers' Compensation Funds, and Employment Security. Beginning in fiscal year 2004, the Public Employees' Insurance Agency and the Board of Risk and Insurance Management have been presented in the major proprietary fund statements due to their importance to management.

Other nonmajor enterprise funds had an increase in net assets of $6.8 million. This increase was primarily due to the West Virginia Prepaid College Plan's interest earnings improvement, reducing its net assets deficit by $1.7 million and the Drinking Water Treatment Revolving Fund receiving $4.5 million from the EPA to fund water treatment facilities.

Other factors concerning the finances of the enterprise funds have already been addressed in the discussion of business-type activities.

GENERAL REVENUE FUND BUDGETARY HIGHLIGHTS

The expenditures of the final amended budget were increased by approximately $7 million. Revenue estimates were unchanged. Higher Education's budgeted expenditures were reduced by $25 million. Medicaid funding for the medical schools was transferred to Health

and Human Resources' expenditures. An additional $7 million allocated to Health and Human Resources was due to a change in the State Medicaid plan which increased the payment level to providers.

A positive variance between the budgeted revenues and actual results arose from increases in severance ($35 million), corporate income/business franchise ($14 million), and other taxes ($20 million). These increases were partially offset by a decrease in personal income taxes ($22 million).

Actual expenditures were $118 million below final budgeted amounts. The most significant positive variances of $12 million, $51 million, and $14 million occurred in the Commerce, Health and Human Resources, and Military Affairs and Pubic Safety functions. Every function had a positive variance due to budget cuts mandated by the Governor.

The positive variance between the excess of revenues over expenditures was approximately $159 million, $118 million from reduced spending and $41 million from increased revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the State had invested $7 billion, net of accumulated depreciation, in a broad range of capital assets shown below. Depreciation charges for the year totaled $275 million.

Capital Assets at Year-End
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Land and Improvements	$ 821,782	$ 739,634	$ 611	$ 611	$ 822,393	$ 740,245
Building and Improvements	373,089	362,817	1,324	1,499	374,413	364,316
Equipment	74,560	80,262	7,437	8,790	81,997	89,052
Library Holdings	1,136	1,685	—	—	1,136	1,685
Construction in Progress	950,722	767,226	—	—	950,722	767,226
Infrastructure	4,802,266	4,782,291	—	—	4,802,266	4,782,291
Totals	$7,023,555	$6,733,915	$9,372	$10,900	$7,032,927	$6,744,815

The total increase, net of disposals and accumulated depreciation, in the State's investment in capital assets for the current fiscal year approximated $288 million. The most significant increases in capital assets during the year were $183 million of construction in progress and $82 million in land.

Additional information for the State's capital assets can be found in Note 9 of this report.

Long-Term Debt

At year-end the State had $7.1 billion in bonds, capital leases, claims and judgments, compensated absences, pension obligations, and other long-term obligations outstanding, as shown in the table below. The State's general obligation bonds are rated AA- by Standard and Poor's Corporation and Fitch Investors' Service. The Moody's Investors Service rating is Aa3. More detailed information related to the State's overall debt position is presented in Note 10 to the financial statements.

Outstanding Debt at June 30
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	$ 774,660	$ 804,635	$ —	$ —	$ 774,660	$ 804,635
Revenue Bonds	670,789	409,106	—	—	670,789	409,106
Capital Leases	300,227	300,899	—	—	300,227	300,899
Accrued and Other Liabilities	301,973	401,091	112,122	102,427	414,095	503,518
Insurance and Compensation Benefits	—	—	4,383,921	4,471,527	4,383,921	4,471,527
Compensated Absences	274,406	250,427	7,983	7,638	282,389	258,065
Pension Obligation	279,958	254,102	—	—	279,958	254,102
Totals	$2,602,013	$2,420,260	$4,504,026	$4,581,592	$7,106,039	$7,001,852

The West Virginia Infrastructure and Jobs Development Council issued new debt. The $45 million Series 2003A revenue bonds were issued to provide additional funding for loans and grants related to wastewater facilities, water facilities and infrastructure projects.

Economic Development Project Fund Revenue Bonds were issued in FY 2004. The revenue bonds in the amount of $250 million were issued to provide economic development grants to businesses/entities in our State. See Note 17 for more information.

The State's general obligation debt must be authorized by constitutional amendment. A proposed amendment must be approved by two-thirds of both the Senate and the House of Delegates before it can be ratified or rejected by the voters. Once the amendment has voter approval, the Legislature must pass specific legislation authorizing the issuance of the general obligation debt. Revenue bonds are issued pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Neither the West Virginia Constitution nor its statutes establish a general limit on any type of debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The fiscal year 2005 budget was developed early in the year, with a 9% reduction from 2004. The reduction was due to a soft economy both nationally and locally and an anticipated decrease in lottery revenues due to actions related to surrounding states. Some additional funding for critical areas such as the State retirement systems, public employees insurance, and the operation of several new correctional and juvenile facilities was included. As the fiscal year progressed, the economy proved to be somewhat better than originally projected. This was due to higher energy prices reflected in Severance Tax collections, better than expected Corporation Net Income/Business Franchise Taxes, and greater than anticipated employment growth resulting in stronger Personal Income Tax collections. By January 2005, the overall revenue outlook for the year was brighter.

The Legislature approved a balanced budget for fiscal 2005, with general fund appropriations of $3.078 billion, up $37 million from the final 2004 budget. This revenue increase projected economic growth at 1.2% above the fiscal year 2004 base. Proposed tax increases on cigarettes and smokeless tobacco, new sales on all-terrain vehicles, and a one-time amnesty program were expected to offset the projected 5% decrease in lottery revenue. Implementation of a 9% reduction in the agencies' base budget was also used to balance the budget.

The outlook for the State of West Virginia depends in part on the future performance of the national and international economies. Many of the goods and services produced in the State are actually consumed by firms and households located beyond the State's borders. This holds true for many of the State's commodity producers (like coal, chemicals, and steel) and also for many of the State's service-providing sectors (like tourism and call center activity). Accordingly, West Virginia's future economic performance depends in part on the future performance of our major trading partners outside the State's borders and around the world.[1]

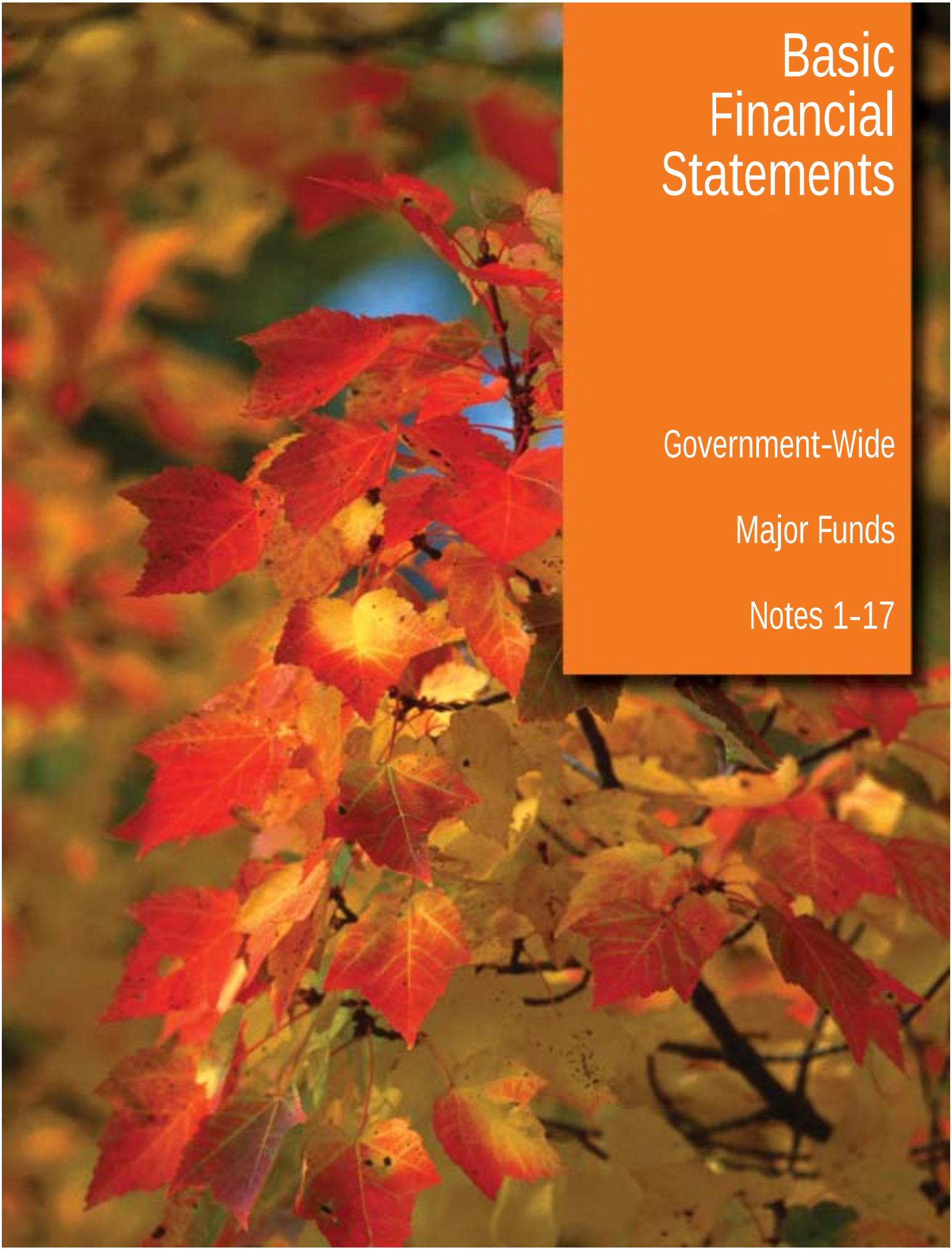
[1] Bureau of Business and Economic Research, College of Business and Economics, West Virginia University, November 2003, "West Virginia Outlook," *West Virginia Economic Outlook 2004*, pp. 7-8.

With the job market down compared to early 2001 levels, and the State's population roughly stable, the seasonally-adjusted unemployment rate has decreased slightly from 5.6% in 2003, to the same as the national average of 5.4%. Even though the State has posted net job losses since March 2001, growth in inflation-adjusted personal income has been steady.

The expected lottery decreases have not come to fruition at this point. Lottery revenues are still increasing, but the Governor and the Legislature refuse to commit these uncertain future revenues to any long-term projects, since the surrounding states are working to pass legislation for state lotteries. Despite the tough State and national economic conditions, the leadership of West Virginia State government has continually shown a willingness to make the necessary budget decisions while maintaining funding levels for its essential programs and services.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Financial Accounting and Reporting Section, 2101 Washington St. East, Building 17, 3rd Floor, Charleston, WV 25305.



Basic Financial Statements

Government-Wide

Major Funds

Notes 1-17

Statement of Net Assets (Restated)
June 30, 2004
(Expressed in Thousands)

	Primary Government			
Assets:	Governmental Activities	Business-type Activities	Total	Component Units
Current Assets:				
Cash and Cash Equivalents	$1,275,404	$1,727,491	$ 3,002,895	$ 476,398
Investments	452,515	1,866	454,381	17,087
Receivables, Net	770,986	295,230	1,066,216	114,704
Due from Other Governments	174,474	4,285	178,759	—
Due from Primary Government	—	—	—	10,219
Due from Component Units	5,792	2,151	7,943	—
Internal Balances	34,294	(34,294)	—	—
Inventories	41,043	843	41,886	7,319
Other Assets	14,722	787	15,509	10,616
Restricted Assets:				
Cash and Cash Equivalents	1,944	57,203	59,147	60,007
Investments	—	814	814	11,035
Other Restricted Assets	—	—	—	106
Total Current Assets	2,771,174	2,056,376	4,827,550	707,491
Noncurrent Assets:				
Investments	—	148,712	148,712	137,743
Receivables, Net	27,603	331,065	358,668	223,021
Other Assets	6,225	—	6,225	17,121
Advance to Component Units	126,276	—	126,276	—
Net Pension Asset	1,982	—	1,982	—
Restricted Assets:				
Cash and Cash Equivalents	26,468	3,943	30,411	71,251
Investments	—	19,138	19,138	135,259
Receivables, Net	—	10,937	10,937	1,003,837
Other Restricted Assets	—	46,513	46,513	11,807
Land and Other Capital Assets Not Being Depreciated	1,765,934	611	1,766,545	285,815
Capital Assets, Being Depreciated (Net of Accumulated Depreciation)	5,257,621	8,761	5,266,382	1,684,304
Total Noncurrent Assets	7,212,109	569,680	7,781,789	3,570,158
Total Assets	9,983,283	2,626,056	12,609,339	4,277,649
Liabilities:				
Current Liabilities:				
Accounts Payable	209,386	80,654	290,040	68,322
Interest Payable	5,262	—	5,262	21,270
Accrued Tuition Contract Benefits	—	4,076	4,076	—
Accrued and Other Liabilities	326,003	25,560	351,563	96,314
Due to Other Governments	106,120	2,775	108,895	—
Due to Primary Government	—	—	—	7,943
Due to Fiduciary Funds	1,111	—	1,111	—
Due to Component Units	7,814	2,405	10,219	—
Unearned Revenue	121,739	211,516	333,255	42,425
Insurance and Compensation Obligations	—	664,672	664,672	—
Liabilities Payable from Restricted Assets	—	1,200	1,200	—
General Obligation Debt	28,650	—	28,650	—
Revenue Bonds Payable	49,028	—	49,028	65,169
Capital Leases	15,113	—	15,113	7,394
Compensated Absences	66,717	2,252	68,969	31,711
Total Current Liabilities	936,943	995,110	1,932,053	340,548

The accompanying notes are an integral part of the financial statements.

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Noncurrent Liabilities:				
Accrued Tuition Contract Benefits	—	101,265	101,265	—
Accrued and Other Liabilities	297,426	—	297,426	1,671
Unearned Revenue	—	—	—	5,187
Insurance and Compensation Obligations	—	3,718,780	3,718,780	—
Advances from Primary Government	—	—	—	126,276
Liabilities Payable from Restricted Assets	—	5,581	5,581	56,205
General Obligation Debt	746,010	—	746,010	—
Revenue Bonds Payable	621,761	—	621,761	1,444,774
Capital Leases	285,114	—	285,114	55,542
Net Pension Obligation	279,958	—	279,958	—
Compensated Absences	207,689	5,731	213,420	72,440
Total Noncurrent Liabilities	2,437,958	3,831,357	6,269,315	1,762,095
Total Liabilities	3,374,901	4,826,467	8,201,368	2,102,643
Net Assets:				
Invested in Capital Assets, Net of Related Debt	6,196,704	9,372	6,206,076	1,325,402
Restricted for:				
Capital Projects	158,613	—	158,613	51,428
Debt Service	126,525	—	126,525	13,379
Program Administration	—	6	6	—
Permanent Funds:				
Nonexpendable	157,845	—	157,845	94,321
Expendable	29,891	—	29,891	—
Lending Activities	—	387,704	387,704	264,621
Insurance Activities	—	300,181	300,181	—
Revenue Shortfall Reserve	53,575	—	53,575	—
Income Tax Reserve Fund	30,719	—	30,719	—
Economic Development and Tourism	27,468	—	27,468	—
Education	10,254	—	10,254	—
Wildlife Management and Conservation	13,844	—	13,844	—
Specific Fund/Component Unit Purposes	470,125	—	470,125	96,640
Unrestricted (Deficit)	(667,181)	(2,897,674)	(3,564,855)	329,215
Total Net Assets (Deficit)	$6,608,382	$(2,200,411)	$ 4,407,971	$2,175,006

Statement of Activities (Restated)
Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Legislative	$ 30,623	$ 1,806	$ 749	$ —
Judicial	83,653	925	156	—
Executive	115,413	5,274	39,587	—
Administration	136,960	25,606	46,288	213
Commerce	259,071	40,658	74,990	—
Environmental Protection	1,410	46,730	88,183	—
Employment Programs	39,007	283	36,995	—
Education	2,399,688	3,846	324,292	99
Health and Human Resources	3,056,163	73,150	2,179,003	—
Military Affairs and Public Safety	324,636	6,679	81,767	38,731
Tax and Revenue	68,596	26,683	30	—
Transportation	753,901	88,777	—	438,974
Senior Services	29,271	—	12,148	—
Miscellaneous Boards and Commissions	45,145	31,641	7,460	—
Interest on Long-Term Debt	76,406	—	—	—
Total Governmental Activities	7,419,943	352,058	2,891,648	478,017
Business-type Activities:				
West Virginia Lottery	776,124	1,303,434	—	—
Water Pollution Control Revolving Fund	1,914	2,843	—	—
Workers' Compensation Fund	579,433	628,682	—	—
Employment Security	195,359	137,872	21,681	—
Public Employees' Insurance Agency	449,905	505,995	—	—
Board of Risk and Insurance Management	96,658	105,435	—	—
Other Activities	62,202	63,754	—	—
Total Business-type Activities	2,161,595	2,748,015	21,681	—
Total Primary Government	$9,581,538	$3,100,073	$2,913,329	$478,017
Component Units:				
Economic Development Authority	$ 9,100	$ 5,098	$ —	$ —
Housing Development Authority	108,183	63,519	51,220	—
Parkways, Economic Development, and Tourism Authority	73,190	63,272	—	—
Water Development Authority	13,584	15,540	—	—
Higher Education	1,111,818	419,061	280,045	16,836
Regional Jail Authority	63,906	60,825	—	—
Other Component Units	51,573	29,492	1,244	76
Total Component Units	$1,431,354	$ 656,807	$ 332,509	$ 16,912
General Revenues:				
Taxes:				
Personal Income				
Consumer Sales				
Business				
Medicaid				
Transportation				
Other				
Unrestricted Investment Earnings				
Tobacco Settlement Revenue				
Federal Appropriations - Jobs and Growth Tax Relief				
Payments from State of West Virginia				
Miscellaneous				
Transfers				
Total General Revenues, Special Items, and Transfers				
Change in Net Assets				
Net Assets (Deficit), Beginning of Year, as Adjusted				
Net Assets (Deficit), End of Year				

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (28,068)		$ (28,068)	
(82,572)		(82,572)	
(70,552)		(70,552)	
(64,853)		(64,853)	
(143,423)		(143,423)	
133,503		133,503	
(1,729)		(1,729)	
(2,071,451)		(2,071,451)	
(804,010)		(804,010)	
(197,459)		(197,459)	
(41,883)		(41,883)	
(226,150)		(226,150)	
(17,123)		(17,123)	
(6,044)		(6,044)	
(76,406)		(76,406)	
(3,698,220)		(3,698,220)	
—	$ 527,310	527,310	
—	929	929	
—	49,249	49,249	
—	(35,806)	(35,806)	
—	56,090	56,090	
—	8,777	8,777	
—	1,552	1,552	
—	608,101	608,101	
(3,698,220)	608,101	(3,090,119)	
			$ (4,002)
			6,556
			(9,918)
			1,956
			(395,876)
			(3,081)
			(20,761)
			(425,126)
1,073,512	—	1,073,512	—
965,378	—	965,378	—
554,734	—	554,734	—
150,335	—	150,335	—
477,159	—	477,159	—
359,341	—	359,341	—
15,753	51,190	66,943	23,947
53,850	—	53,850	—
30,746	—	30,746	—
—	—	—	426,623
52,123	(12,270)	39,853	36,454
411,164	(411,164)	—	—
4,144,095	(372,244)	3,771,851	487,024
445,875	235,857	681,732	61,898
6,162,507	(2,436,268)	3,726,239	2,113,108
$ 6,608,382	$(2,200,411)	$ 4,407,971	$2,175,006

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Major Funds

General This fund is used as the State's operating fund. It accounts for the financial resources and transactions that are not accounted for in other funds. The revenues are from taxes and other general revenues.

Transportation The governmental fund types of the Department of Transportation (the Department) are included in this Fund. The Division of Highways has statutory responsibility for the construction, maintenance, and improvement of all state roads. Transportation expenditures funded by registration fees, license fees, and automobile privilege taxes ("fees and taxes") are recorded in the State Road Fund within the Division of Highways. These fees and taxes, among other revenue sources, are collected by the Division of Motor Vehicles, which is also in the Department. The Department also includes the Division of Public Transit, which administers all federal and state programs that develop public transportation facilities, services, equipment, and methods; the West Virginia Aeronautics Commission, which has general supervision and controls commercial, state, and municipal airports; and the West Virginia Public Port Authority.

West Virginia Infrastructure and Jobs Development Council The Council coordinates the review and funding of water, wastewater, and economic development projects in the State.

Nonmajor governmental funds are presented, by fund type, beginning on page 146.

Balance Sheet (Restated)
Governmental Funds
June 30, 2004
(Expressed in Thousands)

	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental Funds	Total
Assets:					
Cash and Cash Equivalents	$ 608,791	$134,653	$144,818	$379,212	$1,267,474
Investments	151,487	—	87,591	213,437	452,515
Receivables, Net	368,100	131,032	269,869	19,395	788,396
Due from Other Governments	171,887	—	—	2,587	174,474
Due from Other Funds	40,268	3,620	—	23,577	67,465
Due from Component Units	5,550	142	—	—	5,692
Advances to Component Units	126,276	—	—	—	126,276
Inventories	9,706	30,692	—	108	40,506
Other Assets	11,488	3,042	—	—	14,530
Total Assets	$1,493,553	$303,181	$502,278	$638,316	$2,937,328
Liabilities:					
Accounts Payable	$ 119,023	$ 68,489	$ 817	$ 16,629	$ 204,958
Accrued and Other Liabilities	258,313	17,843	—	45,052	321,208
Deferred Revenue	155,596	352	—	13,009	168,957
Due to Other Governments	99,943	3,256	—	2,921	106,120
Due to Other Funds	30,311	7,278	—	836	38,425
Due to Component Units	6,534	860	73	344	7,811
Total Liabilities	669,720	98,078	890	78,791	847,479
Fund Balances:					
Reserved for:					
Inventories	9,706	30,692	—	108	40,506
Capital Projects	—	—	—	136,845	136,845
Debt Service	—	—	—	131,787	131,787
Program Administration	—	—	—	5,764	5,764
Specific Fund Purposes	307,364	—	—	—	307,364
Revenue Shortfall Reserve	53,575	—	—	—	53,575
Income Tax Reserve Fund	30,719	—	—	—	30,719
Lending Activities	—	—	301,711	—	301,711
Permanent Funds	—	—	—	187,736	187,736
Loans Receivable	128,622	—	—	—	128,622
Unreserved, Designated	—	—	138,670	—	138,670
Unreserved:					
Special Revenue Funds	—	174,411	61,007	97,285	332,703
Undesignated	293,847	—	—	—	293,847
Total Fund Balance	823,833	205,103	501,388	559,525	2,089,849
Total Liabilities and Fund Balances	$1,493,553	$303,181	$502,278	$638,316	$2,937,328

The accompanying notes are an integral part of the financial statements.

Reconciliation of the Governmental Funds (Restated)
Balance Sheet to the Statement of Net Assets
June 30, 2004
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 2,089,849
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets (excluding Internal Service Funds) consist of:		
Land	$ 803,996	
Construction in Progress	949,995	
Infrastructure Assets	7,652,610	
Buildings, Equipment and Other Depreciable Assets	839,633	
Accumulated Depreciation	(3,278,954)	
Total Capital Assets		6,967,280
Certain tax and other revenues are earned but not available and therefore are deferred in the funds.		54,915
Internal Service Funds are used by management to charge the costs of certain activities, such as building rental and information services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		78,389
Bonds issued by the State have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.		6,225
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities (excluding Internal Service Funds) consist of:		
General Obligation Bonds	(774,660)	
Revenue Bonds	(670,789)	
Capital Leases	(287,004)	
Compensated Absences	(270,614)	
Net Pension Obligations	(277,976)	
Accrued Interest Payable and Other Liabilities	(307,233)	
Total Long-Term Liabilities		(2,588,276)
Net Assets of Governmental Activities		$ 6,608,382

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances (Restated) Governmental Funds For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

Revenues:	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental Funds	Total
Taxes:					
Personal Income	$1,070,282	$ —	$ —	$ —	$1,070,282
Consumer Sales	963,327	—	—	—	963,327
Severance	211,236	—	—	—	211,236
Corporate Net Income	166,511	—	—	—	166,511
Business and Occupation	176,987	—	—	—	176,987
Medicaid	150,335	—	—	—	150,335
Gasoline and Motor Carrier	—	275,471	—	—	275,471
Automobile Privilege	—	173,225	—	—	173,225
Wholesale Motor Fuel	—	28,463	—	—	28,463
Other	351,471	3,870	—	4,000	359,341
Intergovernmental	2,551,962	409,144	—	157,967	3,119,073
Licenses, Permits, and Fees	91,381	4,461	—	80,671	176,513
Motor Vehicle Registration	—	84,977	—	—	84,977
Charges for Services	106,485	—	1,545	357	108,387
Food Stamp Revenue	228,000	—	—	—	228,000
Investment Earnings	5,907	852	2,839	30,964	40,562
Other	64,895	15,485	—	32,205	112,585
Total Revenues	6,138,779	995,948	4,384	306,164	7,445,275
Expenditures:					
Current:					
Legislature	28,023	—	—	2,611	30,634
Judicial	81,577	—	—	—	81,577
Executive	115,385	—	—	33	115,418
Administration	87,834	—	—	—	87,834
Commerce	263,340	—	10,408	—	273,748
Environmental Protection	5,489	—	—	113,103	118,592
Employment Programs	11	—	—	40,172	40,183
Education	2,322,739	—	—	994	2,323,733
Health and Human Resources	3,056,762	—	—	—	3,056,762
Military Affairs and Public Safety	335,084	—	—	3,823	338,907
Tax and Revenue	40,774	—	—	3,991	44,765
Transportation	15,834	515,380	—	—	531,214
Senior Services	29,230	—	—	—	29,230
Miscellaneous Boards and Commissions	12,795	—	—	31,885	44,680
Capital Outlay	—	412,943	—	160,352	573,295
Debt Service:					
Principal	—	23,070	—	42,710	65,780
Interest	—	26,952	—	47,434	74,386
Total Expenditures	6,394,877	978,345	10,408	447,108	7,830,738
Excess of Revenues Over (Under) Expenditures	(256,098)	17,603	(6,024)	(140,944)	(385,463)
Other Financing Sources (Uses):					
Face Value of Long-Term Debt Issued	230,905	—	45,000	18,990	294,895
Discounts on Bonds Issued	(1,398)	—	(321)	—	(1,719)
Capital Lease Acquisition	1,776	—	—	13,274	15,050
Transfers In	365,737	4,917	44,447	174,600	589,701
Transfers Out	(146,202)	—	(1,610)	(40,987)	(188,799)
Total Other Financing Sources	450,818	4,917	87,516	165,877	709,128
Net Change in Fund Balance	194,720	22,520	81,492	24,933	323,665
Fund Balances, Beginning of Year	629,113	182,583	419,896	534,592	1,766,184
Fund Balances, End of Year	$ 823,833	$205,103	$501,388	$ 559,525	$2,089,849

The accompanying notes are an integral part of the financial statements.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities (Restated)
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$323,665
Amounts reported for governmental activities in the statement of activities are different because:		
Restatement of beginning net assets due to the adoption of Technical Bulletin 2004-1 related to Tobacco Settlement Revenue.		(27,832)
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay	$ 552,393	
Depreciation Expense	(256,733)	
Excess of Capital Outlay Over Depreciation Expense		295,660
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		(15,050)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Revenue Bonds issued, including a discount of $1,719		
Total Bond Proceeds		(293,176)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. For the current year these amounts consist of:		
Bond Principal Retirement	60,847	
Capital Lease Payments	12,317	
Total Long-Term Debt Repayment		73,164
Internal service funds are used by management to charge the costs of certain activities, such as building and vehicle maintenance and leasing, data processing, and investment and management of State moneys, to individual funds. The net increase in net assets of the internal service funds is reported with governmental activities.		4,981
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		31,220
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Accrued Interest	375	
Compensated Absences	(22,944)	
Accrued and Other Liabilities (liability estimate change-see page 122)	98,526	
Net Pension Obligation	(25,696)	
Amortization of Bond Premiums and Issuance Costs	2,982	
Total Additional Expenditures		53,243
Change in Net Assets of Governmental Activities		$445,875

The accompanying notes are an integral part of the financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

Major Funds

West Virginia Lottery The West Virginia Lottery's responsibilities include the distribution and sale of lottery tickets and the awarding of prizes. The West Virginia Lottery accounts for lottery ticket revenues, administrative and operating expenses and distribution of net revenue to the General Fund.

Water Pollution Control Revolving Fund (Water Pollution) Low interest loans are made to communities that need to upgrade an existing waste water system, establishing a new utility or cleaning up the State's water supply. The Fund is to remain in perpetuity by recirculating the principal and interest earned from the loans.

Workers' Compensation Fund The Fund is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment. The Fund, the only entity in the State extending this type of service, is required by statute to provide insurance to all employers in the State. The Fund has discretionary power to alter its premium structure.

Employment Security The Fund is administered by the West Virginia Employment Security Commission. The Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers.

Public Employees' Insurance Agency The Agency, a public entity risk pool, is responsible for providing health and life insurance to current and retired state and county employees. The Agency, empowered to set the premium rates charged to its participants, utilizes a third-party administrator to process claims and make payments to doctors and hospitals on a cost reimbursement basis.

Board of Risk and Insurance Management The Board, a public entity risk pool, is responsible for the self-insurance of all State buildings, automobiles, and legal and civil actions, as well as insuring various county and local governments and charitable organizations. The Board is funded from the premiums assessed to the organizations it insures.

Nonmajor proprietary funds are presented beginning on page 166.

Statement of Net Assets
Proprietary Funds
June 30, 2004
(Expressed in Thousands)

	Business-type Activities - Enterprise Funds			
Assets:	West Virginia Lottery	Water Pollution	Workers' Compensation Funds	Employment Security
Current Assets:				
Cash and Cash Equivalents	$120,035	$ 72,884	$ 1,088,093	$218,923
Investments	—	—	—	—
Receivables, Net	16,068	15,256	204,648	34,684
Due from Other Governments	—	2,954	—	1,097
Due from Other Funds	18	23	14,302	2,607
Due from Component Units	—	—	1,544	566
Inventories	838	—	—	—
Other Assets	763	—	—	—
Restricted Assets:				
Cash and Cash Equivalents	—	—	—	—
Investments	814	—	—	—
Total Current Assets	138,536	91,117	1,308,587	257,877
Noncurrent Assets:				
Investments	—	—	—	—
Receivables, Net	—	297,089	—	—
Restricted Assets:				
Cash and Cash Equivalents	—	—	—	—
Investments	2,228	—	—	—
Receivables, Net	—	—	—	—
Other Restricted Assets	—	—	—	—
Capital Assets, Net	3,184	—	4,040	—
Total Noncurrent Assets	5,412	297,089	4,040	—
Total Assets	143,948	388,206	1,312,627	257,877
Liabilities:				
Current Liabilities:				
Accounts Payable	71,943	14	—	—
Accrued Tuition Contract Benefits	—	—	—	—
Accrued and Other Liabilities	21,092	768	—	938
Due to Other Governments	—	—	—	2,775
Due to Other Funds	46,755	22	6,945	24
Due to Component Units	472	41	1,752	—
Deferred Revenue	—	—	180,535	—
Insurance and Compensation Obligations	—	—	523,631	19,203
Liabilities Payable from Restricted Assets	1,200	—	—	—
Capital Leases	—	—	—	—
Compensated Absences	—	—	2,232	—
Total Current Liabilities	141,462	845	715,095	22,940
Noncurrent Liabilities:				
Accrued Tuition Contract Benefits	—	—	—	—
Insurance and Compensation Obligations	—	—	3,559,600	—
Liabilities Payable from Restricted Assets	1,638	—	—	—
Capital Leases	—	—	—	—
Compensated Absences	598	358	3,001	—
Total Noncurrent Liabilities	2,236	358	3,562,601	—
Total Liabilities	143,698	1,203	4,277,696	22,940
Net Assets:				
Invested in Capital Assets, Net of Related Debt	3,184	—	4,040	—
Restricted for Capital Projects	—	—	—	—
Restricted for Program Administration	—	—	—	—
Restricted for Lending Activities	—	352,443	—	—
Restricted for Insurance Activities	—	—	43,305	234,937
Unrestricted (Deficit)	(2,934)	34,560	(3,012,414)	—
Total Net Assets (Deficit)	$ 250	$387,003	$(2,965,069)	$234,937

The accompanying notes are an integral part of the financial statements.

Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise Funds	Total	Governmental Activities- Internal Service Funds
$187,668	$ 23,786	$ 16,102	$ 1,727,491	$ 7,930
—	1,866	—	1,866	—
19,409	506	4,659	295,230	2,496
234	—	—	4,285	—
2,771	113	48	19,882	4,248
41	—	—	2,151	100
—	—	5	843	537
—	—	24	787	192
—	57,203	—	57,203	1,944
—	—	—	814	—
210,123	83,474	20,838	2,110,552	17,447
—	66,869	81,843	148,712	—
—	—	33,976	331,065	—
3,943	—	—	3,943	26,468
—	16,910	—	19,138	—
—	10,937	—	10,937	—
—	46,513	—	46,513	—
90	—	2,058	9,372	56,275
4,033	141,229	117,877	569,680	82,743
214,156	224,703	138,715	2,680,232	100,190
4,235	2,460	2,002	80,654	4,428
—	—	4,076	4,076	—
764	1,982	16	25,560	250
—	—	—	2,775	—
339	10	81	54,176	105
132	—	8	2,405	3
2,868	28,113	—	211,516	—
61,690	60,148	—	664,672	—
—	—	—	1,200	—
—	—	—	—	4,996
—	—	20	2,252	—
70,028	92,713	6,203	1,049,286	9,782
—	—	101,265	101,265	—
—	159,180	—	3,718,780	—
3,943	—	—	5,581	—
—	—	—	—	8,227
440	196	1,138	5,731	3,792
4,383	159,376	102,403	3,831,357	12,019
74,411	252,089	108,606	4,880,643	21,801
90	—	2,058	9,372	43,176
—	—	—	—	21,783
—	—	6	6	—
—	—	35,261	387,704	—
—	21,939	—	300,181	—
139,655	(49,325)	(7,216)	(2,897,674)	13,430
$139,745	$(27,386)	$ 30,109	$(2,200,411)	$ 78,389

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution	Workers' Compensation Funds	Employment Security
Operating Revenues:				
Charges for Services and Sales	$ —	$ —	$ —	$137,926
Lottery Games	1,303,437	—	—	—
Insurance Premiums	—	—	638,654	—
Tuition Contracts	—	—	—	—
Investment Earnings	—	1,746	—	—
Licenses, Permits, and Fees	—	1,097	—	—
Other	14,114	—	40,138	7,337
Total Operating Revenues	1,317,551	2,843	678,792	145,263
Operating Expenses:				
Cost of Sales and Services	631,857	—	—	—
Lottery Prizes	123,264	—	—	—
Insurance Claims	—	—	513,923	—
Tuition Contract Benefits and Expenses	—	—	—	—
General and Administration	12,143	1,914	65,485	—
Depreciation and Amortization	1,913	—	553	—
Other	15,717	—	—	195,361
Total Operating Expenses	784,894	1,914	579,961	195,361
Operating Income (Loss)	532,657	929	98,831	(50,098)
Nonoperating Revenues (Expenses):				
Entitlements and Grants	—	—	—	21,681
Gain on Sale of Equipment	—	—	—	—
Interest and Other Investment Income	754	831	23,780	12,536
Interest Expense	(280)	—	—	—
Other Nonoperating Revenues	—	—	—	—
Other Nonoperating Expenses	(80,337)	—	—	—
Total Nonoperating Revenues (Expenses)	(79,863)	831	23,780	34,217
Income (Loss) Before Contributions and Transfers	452,794	1,760	122,611	(15,881)
Contributions and Transfers:				
Capital Contributions	—	—	—	—
Transfers In	—	32,800	14,000	—
Transfers Out	(452,794)	—	—	(1,669)
Total Contributions and Transfers	(452,794)	32,800	14,000	(1,669)
Change in Net Assets	—	34,560	136,611	(17,550)
Net Assets (Deficit), Beginning of Year	250	352,443	(3,101,680)	252,487
Net Assets (Deficit), End of Year	$ 250	$387,003	$(2,965,069)	$234,937

The accompanying notes are an integral part of the financial statements.

Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
$ —	$ —	$60,217	$ 198,143	$57,315
—	—	—	1,303,437	—
506,003	105,467	—	1,250,124	—
—	—	357	357	—
—	—	—	1,746	—
—	—	3,181	4,278	—
6,035	—	443	68,067	—
512,038	105,467	64,198	2,826,152	57,315
—	—	47,430	679,287	50,342
—	—	—	123,264	—
426,667	86,122	—	1,026,712	—
—	—	9,064	9,064	—
15,083	10,536	5,935	111,096	4,954
46	—	154	2,666	7,273
8,218	—	—	219,296	—
450,014	96,658	62,583	2,171,385	62,569
62,024	8,809	1,615	654,767	(5,254)
—	—	—	21,681	—
—	—	—	—	179
1,549	1,109	10,631	51,190	156
—	—	—	(280)	(649)
—	—	—	—	74
—	—	—	(80,337)	—
1,549	1,109	10,631	(7,746)	(240)
63,573	9,918	12,246	647,021	(5,494)
—	—	—	—	213
—	1,942	4,384	53,126	11,271
—	—	(9,827)	(464,290)	(1,009)
—	1,942	(5,443)	(411,164)	10,475
63,573	11,860	6,803	235,857	4,981
76,172	(39,246)	23,306	(2,436,268)	73,408
$139,745	$(27,386)	$30,109	$(2,200,411)	$78,389

Statement of Cash Flows
Proprietary Funds
June 30, 2004
(Expressed in Thousands)

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution	Workers' Compensation Funds	Employment Security
Cash Flows From Operating Activities:				
Receipts from Customers	$1,325,487	$ 16,328	$ 653,812	$133,060
Payment to Suppliers	(15,367)	—	(25,184)	—
Payments to Employees	(4,937)	(1,236)	(39,792)	—
Payment to Beneficiaries	—	—	—	—
Payments for Loans Originated	—	(54,261)	—	—
Payments to Claimants	—	—	(640,279)	(199,909)
Other Operating Cash Receipts	—	—	—	12,417
Other Operating Cash Payments	(769,374)	(689)	—	—
Net Cash Provided by (Used for) Operating Activities	535,809	(39,858)	(51,443)	(54,432)
Cash Flows from Noncapital Financing Activities:				
Repayment of Operating Debt	(1,428)	—	—	—
Transfers In	—	—	14,000	—
Transfers Out	(450,350)	—	—	(1,669)
Other Nonoperating Revenues (Expenses)	(4,623)	—	210,000	—
Entitlements and Grants	—	29,878	—	21,681
Net Cash Provided by (Used for) Noncapital Financing Activities	(456,401)	29,878	224,000	20,012
Cash Flows from Capital and Related Financing Activities:				
Capital Contributions	—	—	—	—
Proceeds from Sale of Capital Bonds and Other Debts	—	—	—	—
Repayment of Capital Debt	—	—	—	—
Interest Paid on Capital Debt	—	—	—	—
Acquisition and Construction of Capital Assets	(11,038)	—	(813)	—
Proceeds from Sale of Capital Assets	—	—	—	—
Net Cash Used for Capital and Related Financing Activities	(11,038)	—	(813)	—
Cash Flows from Investing Activities:				
Purchase of Investments	—	—	—	—
Proceeds from Sale of Investments	1,426	—	—	—
Investment Earnings	735	831	23,780	12,536
Net Cash Provided by (Used for) Investing Activities	2,161	831	23,780	12,536
Net Increase (Decrease) in Cash and Cash Equivalents	70,531	(9,149)	195,524	(21,884)
Cash and Cash Equivalents, Beginning of Year	49,504	82,033	892,569	240,807
Cash and Cash Equivalents, End of Year	$ 120,035	$ 72,884	$1,088,093	$218,923

The accompanying notes are an integral part of the financial statements.

Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
$ 516,320	$108,074	$ 70,370	$2,823,451	$ 59,365
(18,581)	(7,803)	(49,492)	(116,427)	(39,846)
(2,093)	(1,296)	(3,638)	(52,992)	(14,755)
(440,975)	(51,081)	(2,165)	(494,221)	—
—	—	(3,492)	(57,753)	—
—	—	—	(840,188)	—
15,043	(150)	310	27,620	—
—	—	—	(770,063)	—
69,714	47,744	11,893	519,427	4,764
—	(500)	—	(1,928)	—
—	1,942	4,401	20,343	11,271
—	—	(9,817)	(461,836)	(1,009)
—	—	—	205,377	9
—	—	—	51,559	—
—	1,442	(5,416)	(186,485)	10,271
—	—	—	—	213
—	—	—	—	2,070
—	—	—	—	(5,985)
—	—	—	—	(678)
(22)	—	(89)	(11,962)	(673)
—	—	—	—	401
(22)	—	(89)	(11,962)	(4,652)
—	(43,854)	(15,828)	(59,682)	(230)
—	53,981	—	55,407	175
1,549	5,056	8,536	53,023	155
1,549	15,183	(7,292)	48,748	100
71,241	64,369	(904)	369,728	10,483
120,370	16,620	17,006	1,418,909	25,859
$ 191,611	$ 80,989	$ 16,102	$1,788,637	$ 36,342

(Continued)

Statement of Cash Flows
Proprietary Funds
June 30, 2004
(Expressed in Thousands)
(Continued)

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution	Workers' Compensation Funds	Employment Security
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	$532,657	$ 929	$ 98,831	$(50,098)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation and Amortization	1,913	—	553	—
Changes in Assets and Liabilities:				
Receivables	7,936	(40,795)	(57,684)	180
Inventories	(272)	—	—	—
Other Assets	145	—	—	—
Accounts Payable and Accrued Liabilities	(778)	30	26,457	(3,774)
Tuition Contract Benefits and Expenses	—	—	—	—
Deferred Revenues	—	—	—	—
Escrow Deposits	—	—	—	—
Due to/from Other Funds	—	(22)	—	(740)
Unpaid Claims Liabilities	—	—	—	—
Other Liabilities	(5,792)	—	(119,600)	—
Compensated Absences	—	—	—	—
Net Cash Provided by (Used for) Operating Activities	$535,809	$(39,858)	$ (51,443)	$(54,432)
Schedule of Noncash Capital and Financing Activities:				
Unrealized Gain (Loss) on Investments	$ —	$ —	$ —	$ —

The accompanying notes are an integral part of the financial statements.

Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise Funds	Total	Governmental Activities- Internal Service Funds
$62,024	$ 8,809	$ 1,615	$ 654,767	$(5,254)
46	—	154	2,666	7,273
4,578	(4,993)	2,992	(87,786)	2,048
—	—	13	(259)	(126)
—	—	124	269	(47)
710	—	57	22,702	85
—	—	6,899	6,899	—
—	7,571	—	7,571	—
—	(152)	—	(152)	—
(924)	—	—	(1,686)	—
—	35,041	—	35,041	—
3,280	1,468	—	(120,644)	785
—	—	39	39	—
$69,714	$47,744	$11,893	$ 519,427	$ 4,764
$ —	$ (4,612)	$ 2,095	$ (2,517)	$ —

FIDUCIARY FUND FINANCIAL STATEMENTS

Private Purpose Trust Fund This fund is used to report a trust arrangement under which principal and income benefit individuals.

SMART 529 The West Virginia College Savings Program (the Program) operates under the West Virginia State Code Chapter 18, Article 30, and is administered by the Office of the State Treasurer under the direction of the Program's Board. All funds paid into or invested through the Program will be available for use at any two- or four-year college or university in the country, with refund and transfer options available. Since the Program is an Internal Revenue Service Section 529 Qualified State Tuition Program, earnings on the funds are federally tax deferred until used for college.

The individual Pension Trust, Investment Trust, and Agency Fund descriptions and financial statements begin on page 171.

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds	Private Purpose Trust Fund	Agency Funds
Assets:				
Cash and Cash Equivalents	$ 8,327	$ —	$ 68	$23,720
Equity in Pooled Cash Equivalents	2,713	192,233	—	19,832
Investments:				
Equity Pooled Investments	4,738,917	—	—	—
Mutual Funds	530,144	—	367,773	—
Receivables, Net:				
Contributions Receivable	31,643	—	3,891	—
Participant Loans Receivable	16,730	—	—	—
Accrued Interest Receivable	—	—	—	17
Due from Other Funds	1,111	—	—	—
Other Assets	4	—	—	—
Total Assets	5,329,589	192,233	371,732	$43,569
Liabilities:				
Accounts Payable	—	—	3,253	$ 9
Accrued and Other Liabilities	506	—	325	—
Due to Other Governments	—	—	—	6,511
Agency Liabilities	—	—	—	37,049
Total Liabilities	506	—	3,578	$43,569
Net Assets:				
Held in Trust For:				
Pension Benefits, External Investment Pool Participants, Individuals, and Organizations	5,329,083	192,233	368,154	
Total Net Assets	$5,329,083	$192,233	$368,154	

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Fiduciary Net Assets
Pension, Investment Trust, and Private Purpose Trust Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds	Private Purpose Trust Fund
Additions:			
Contributions:			
Members	$ 132,526	$ —	$ —
Employer	507,958	—	—
Account Holder Contributions	—	—	193,627
Deposits, Pool Participants	—	622,836	—
Total Contributions	640,484	622,836	193,627
Investment Income:			
Net Appreciation in Fair Value of Investments	675,720	2,130	34,119
Interest	3,221	—	3,481
Investment Expense	(17,531)	—	(1,335)
Net Investment Income	661,410	2,130	36,265
Other	14,773	—	—
Total Additions	1,316,667	624,966	229,892
Deductions:			
Benefits Expense	514,812	—	—
Payments in Accordance with Trust Agreements	—	—	7,796
Refunds of Contributions	17,452	—	—
Withdrawals	—	628,490	—
Administrative Expenses	5,228	—	779
Total Deductions	537,492	628,490	8,575
Change in Net Assets Held in Trust for:			
Pension Benefits	779,175	—	—
External Investment Pool Participants	—	(3,524)	—
Individuals and Organizations	—	—	221,317
Net Assets, Beginning of Year	4,549,908	195,757	146,837
Net Assets, End of Year	$5,329,083	$192,233	$368,154

The accompanying notes are an integral part of the financial statements.

STATE OF WEST VIRGINIA
JUNE
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DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS

Major Component Units

Economic Development Authority The Authority, responsible for developing and advancing the business prosperity and economic welfare of the State, is authorized to make loans and enter into direct financing and operating leases with industrial development agencies for the promotion and retention of new and existing commercial and industrial development. The Authority is empowered to borrow money and issue bonds, notes, commercial paper and other debt instruments to furnish money for the enhancement of business development projects, and additionally maintains the discretionary ability to set loan terms and interest rates.

Housing Development Fund The Fund is responsible for providing residential housing programs for low and moderate income families, elderly persons, and other eligible persons and families as well as financing certain nonresidential projects. The Fund is empowered to issue bonds payable from mortgage payments and to issue general obligation bonds payable from other assets. The bonds of the Housing Development Fund do not constitute debt of the State.

Parkways, Economic Development, and Tourism Authority The Authority is responsible for operation and maintenance of the State turnpike and economic development and tourism for those areas within 75 miles. The Authority is empowered to issue bonds and set rates for crossing the turnpike. The State has discretionary authority to reappropriate any surplus from the Authority.

Water Development Authority The Authority is responsible for assisting in the preservation, protection, improvement, and management of the State's water resources. The Authority oversees a loan pool program which provides low-interest

financing to local governments for water and wastewater projects. The Authority issues bonds to fund the loan pool and uses the proceeds to purchase local government revenue bonds. The revenue bonds are payable solely from the revenues of the projects.

The West Virginia Higher Education Fund The Fund is responsible for providing the delivery of postsecondary education which is competitive, affordable, and has the capacity to deliver the programs and services necessary to meet the regional and statewide needs of young people and working-age adults. The focus and collaboration of the Institutions within the Fund is to create a system of higher education that is equipped to increase the competitiveness and to diversify and to expand the State's workforce by increasing the number of college degrees produced. The Fund obtains revenues from state and federal student aid programs; tuition and fees; state and federal appropriations; sales and services of educational activities and auxiliary enterprises; federal, state, local, and nongovernmental grants and contracts; and gifts and contributions.

The Regional Jail and Correctional Facility Authority The Authority is responsible for replacing individual county jails with regional jails. Along with the state correctional institutions, the Regional Jail Authority is part of the consolidated penal system of this State. Although the construction of additional jails is ongoing, the operating focus has become the confinement of prisoners and existing jail operations. A majority of the operations, as well as a majority of the debt service, are financed by per diem fees for prisoners and court fees rather than appropriations from the State. No bonds or other obligations may be issued until the Legislature has approved the purpose and amount of each project.

Nonmajor component units are presented beginning on page 181.

Combining Statement of Net Assets
Discretely Presented Component Units
June 30, 2004
(Expressed in Thousands)

Assets:	Economic Development Authority	Housing Development Fund	Parkways, Economic Development and Tourism Authority	Water Development Authority
Current Assets:				
Cash and Cash Equivalents	$ 40,854	$ 24,222	$ 398	$ 6,360
Investments	—	—	—	—
Receivables, Net	15,080	6,734	528	7,503
Due from Primary Government	—	—	245	122
Due from Component Units	—	—	—	—
Inventories	—	—	2,304	—
Other Assets	36	5,253	2,523	—
Restricted Assets:				
Cash and Cash Equivalents	—	52,923	—	—
Investments	—	—	11,035	—
Other Restricted Assets	—	—	—	—
Total Current Assets	55,970	89,132	17,033	13,985
Noncurrent Assets:				
Investments	—	—	—	1,200
Receivables, Net	141,777	29,734	—	6,106
Other Assets	—	—	—	—
Restricted Assets:				
Cash and Cash Equivalents	12,342	48,463	4,146	5,489
Investments	—	97,022	22,530	15,707
Receivables, Net	—	797,120	—	206,717
Other Restricted Assets	—	10,834	—	—
Capital Assets, Net	46,262	220	559,891	819
Total Noncurrent Assets	200,381	983,393	586,567	236,038
Total Assets	256,351	1,072,525	603,600	250,023
Liabilities:				
Current Liabilities:				
Accounts Payable	1	—	2,092	16
Interest Payable	—	6,046	763	2,469
Accrued and Other Liabilities	358	21,650	2,104	—
Due to Primary Government	4,700	—	371	1
Due to Component Units	32	—	—	—
Deferred Revenue	—	—	—	—
Revenue Bonds Payable	—	41,035	2,881	3,302
Capital Leases	1,179	—	—	—
Compensated Absences	—	—	—	—
Total Current Liabilities	6,270	68,731	8,211	5,788
Noncurrent Liabilities:				
Deferred Revenue	5,187	—	—	—
Advances from Primary Government	126,276	—	—	—
Liabilities Payable from Restricted Assets	—	49,648	—	—
Accrued and Other Liabilities	1,671	—	—	—
Revenue Bonds Payable	—	646,120	107,053	203,332
Capital Leases	12,097	—	—	—
Compensated Absences	—	2,433	3,019	315
Total Noncurrent Liabilities	145,231	698,201	110,072	203,647
Total Liabilities	151,501	766,932	118,283	209,435
Net Assets:				
Investment in Capital Assets, Net of Related Debt	34,634	—	449,957	819
Restricted for:				
Capital Projects	—	—	—	—
Debt Service	—	—	—	—
Nonexpendable	—	—	—	—
Lending Activities	—	240,039	—	24,582
Loans Receivable	12,342	—	—	—
Specific Component Unit Purposes	—	—	31,461	—
Unrestricted	57,874	65,554	3,899	15,187
Total Net Assets	$104,850	$ 305,593	$485,317	$ 40,588

The accompanying notes are an integral part of the financial statements.

Higher Education	Regional Jail Authority	Other Component Units	Total
$ 354,518	$ 11,624	$ 38,422	$ 476,398
—	9,418	7,669	17,087
65,105	16,698	3,056	114,704
8,559	314	979	10,219
32	—	—	32
4,497	453	65	7,319
2,013	—	791	10,616
—	—	7,084	60,007
—	—	—	11,035
—	—	106	106
434,724	38,507	58,172	707,523
136,543	—	—	137,743
45,404	—	—	223,021
17,121	—	—	17,121
—	270	541	71,251
—	—	—	135,259
—	—	—	1,003,837
—	—	973	11,807
1,170,084	148,653	44,190	1,970,119
1,369,152	148,923	45,704	3,570,158
1,803,876	187,430	103,876	4,277,681
62,078	3,381	754	68,322
11,992	—	—	21,270
69,702	1,536	964	96,314
1,586	1,118	167	7,943
—	—	—	32
42,228	—	197	42,425
14,191	3,760	—	65,169
5,754	—	461	7,394
29,285	2,083	343	31,711
236,816	11,878	2,886	340,580
—	—	—	5,187
—	—	—	126,276
—	—	6,557	56,205
—	—	—	1,671
394,219	94,050	—	1,444,774
27,717	—	15,728	55,542
63,966	925	1,782	72,440
485,902	94,975	24,067	1,762,095
722,718	106,853	26,953	2,102,675
746,642	50,843	42,507	1,325,402
40,922	10,506	—	51,428
12,251	1,128	—	13,379
94,321	—	—	94,321
—	—	—	264,621
—	—	—	12,342
50,952	—	1,885	84,298
136,070	18,100	32,531	329,215
$1,081,158	$ 80,577	$ 76,923	$2,175,006

Combining Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Component Units:					
Economic Development Authority	$ 9,132	$ 5,098	$ —	$ —	$ (4,034)
Housing Development Fund	108,183	63,519	51,220	—	6,556
Parkways, Economic Development, and Tourism Authority	73,190	63,272	—	—	(9,918)
Water Development Authority	13,584	15,540	—	—	1,956
Higher Education	1,111,818	419,093	280,045	16,836	(395,844)
Regional Jail Authority	63,906	60,825	—	—	(3,081)
Other Component Units	51,573	29,492	1,244	76	(20,761)
Total Component Units	$1,431,386	$656,839	$332,509	$16,912	$(425,126)

The accompanying notes are an integral part of the financial statements.

General Revenue						
Unrestricted Investment Earnings	Miscellaneous	Payments from the State of West Virginia	Total General Revenue	Change in Net Assets	Net Assets, Beginning of Year, as Adjusted	Net Assets, End of Year
$ 5,836	$ 699	$ 2,350	$ 8,885	$ 4,851	$ 99,999	$ 104,850
697	—	—	697	7,253	298,340	305,593
381	—	—	381	(9,537)	494,854	485,317
1,346	(880)	—	466	2,422	38,166	40,588
15,233	32,817	402,507	450,557	54,713	1,026,445	1,081,158
258	2,307	—	2,565	(516)	81,093	80,577
196	1,511	21,766	23,473	2,712	74,211	76,923
$23,947	$36,454	$426,623	$487,024	$61,898	$2,113,108	$2,175,006

STATE OF WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (Restated)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The State of West Virginia is governed by elected officials. In accordance with GASB Statement No. 14, "The Financial Reporting Entity," these financial statements present the State (the primary government) and its component units. The component units discussed below are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Individual Component Unit Disclosures

Accounting principles generally accepted in the United States (GAAP) define component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable, or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. GAAP specifies two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions or discrete presentation of the component units' financial data in columns separate from the State's financial data.

Blended Component Units

The entities below are legally separate from the State and meet the GAAP criteria for component units. These entities are blended with the primary government because they provide services entirely or almost entirely to the State.

Armory Board

The State Armory Board is governed by the Governor, the State Auditor, and the Secretary of State. Its activities are blended in the nonmajor special revenue funds of the State. The State Armory Board serves the State by providing facilities for the activities of the regiment of the National Guard.

Transportation

The Division of Highways, within the Department of Transportation, is governed by a commissioner appointed by the Governor; it does not have a governing board separate from the State Legislature. It is a legally separate entity defined by the State Constitution. Since its operations are to improve the State's roads, Transportation is blended in the special revenue and capital projects funds of the State.

School Building Authority

The School Building Authority is governed by a ten-member board appointed by the Governor. The State Superintendent of Schools serves as President and three members are from the State Board of Education. The School Building Authority is blended in the nonmajor special revenue, debt service, and capital projects funds of the State since it exists to facilitate the State's responsibility for funding education. Its activities are designed to provide a financing vehicle for the acquisition, construction and maintenance of school facilities to meet the educational needs of the State.

West Virginia Investment Management Board

The West Virginia Investment Management Board (IMB) is governed by a thirteen-member Board of Trustees. The IMB was created by West Virginia Code §12-6-1 to serve as the administrator, investor, and manager of the State's pension and operating funds. The Governor, the State Auditor, and the State Treasurer are members of the Board and the other members are appointed by the Governor. Because there is a financial benefit-burden relationship between the State and the IMB, and assets of the State and its component units comprise over 90% of the assets managed by the IMB, it is blended in the internal service funds of the State.

West Virginia Lottery

The West Virginia Lottery is governed by a seven-member board appointed by the Governor. It was formed to assist the State in funding education and other basic governmental activities. This is accomplished by transferring the net profits of the games conducted by the Lottery to other accounts for uses including, but not limited to, debt service, education and promotion of tourism. Because the Lottery exists to provide funding entirely to the State, it is blended in the enterprise funds of the State.

Blended Component Unit Financial Statements

Audited financial statements for these blended component units, other than the Armory Board which is not separately audited, can be obtained directly from their respective administrative offices.

Administrative Offices:

School Building Authority
Finance Division
2300 Kanawha Blvd., East
Charleston, WV 25311

Transportation
1900 Kanawha Boulevard, E.
Building 5, Room A109
Charleston, WV 25305

West Virginia Investment
Management Board
500 Virginia Street East
Suite 200
Charleston, WV 25301

West Virginia Lottery
P.O. Box 2967
Charleston, WV 25327

Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. Because of the nature of the services they provide and the State's ability to impose its will on them, the following component units are discretely presented in accordance with GASB Statement No. 14. The State has both governmental (providing services to the government) and proprietary (providing services to external parties) component units. The component units are presented in a single column on the government-wide statements.

The major discretely presented component units are comprised of the following entities:

Economic Development Authority

The Economic Development Authority (EDA) is administered by a nine-member board composed of the Governor, Secretary of Tax and Revenue, and seven other members appointed by the Governor. EDA is responsible for developing and advancing the business prosperity and economic welfare of the State. EDA is authorized to make loans, including direct financing and operating leases to industrial development agencies for the promotion and retention of new and existing commercial and industrial development. EDA is

empowered to borrow money and issue bonds (with approval of the State), notes, commercial paper and other debt instruments to furnish money for the enhancement of business development projects and has the ability to establish loan terms, including interest rates, at its discretion. EDA promotes economic development among private industries, and though its services benefit the State by increasing the tax base, its primary function is to provide jobs.

Housing Development Fund

The Housing Development Fund (HDF) is governed by an eleven-member board consisting of the Governor, the Attorney General, the Commissioner of Agriculture, the State Treasurer, and seven other members appointed by the Governor. HDF is responsible for providing residential housing programs for low-income and moderate-income families, elderly persons, and other eligible persons and families, as well as financing certain nonresidential projects. It is empowered to issue bonds which are payable from the mortgage payments. The assets and revenues of the bond programs of the HDF are restricted by resolution to repay the outstanding debt.

Parkways, Economic Development and Tourism Authority

The Parkways, Economic Development and Tourism Authority (the Authority) is composed of seven members. The Secretary of the Department of Transportation serves as its chairperson and six members are appointed by the Governor. Its responsibilities include the operation and maintenance of the West Virginia Turnpike (the Turnpike) as well as economic development and tourism for areas within 75 miles of the Turnpike. The Authority can also issue bonds and set the rates for using the Turnpike.

Water Development Authority

The Water Development Authority (the Authority) is governed by a seven-member board consisting of the Director of the Division of Environmental Protection, the Commissioner of the Bureau for Public Health, a state official designated annually by the Governor as the most responsible for economic or community development, and four public members appointed by the Governor. The Authority is responsible for assisting in the preservation, protection, improvement, and management of the State's water resources. The Authority oversees a loan pool program which provides low-interest financing to local governments for water and wastewater projects. The Authority issues bonds to fund the loan pool and uses the proceeds to purchase local government revenue bonds. The revenue bonds are payable solely from the revenues of the projects. The Authority also serves as the financial administrator of the West Virginia Infrastructure and Jobs Development Council (a major governmental fund) and the West Virginia Water Pollution Control Revolving Fund (an enterprise fund).

Higher Education

Each college and university in the Higher Education Fund (the Fund) is governed by a Governing Board, which is responsible for the general determination, control, supervision and management of the financial business and educational policies and affairs of the institution(s). The West Virginia Higher Education Policy Commission (the Policy Commission), in accordance with Senate Bill No. 653, is the single accountability point responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. It is comprised of nine persons appointed by the Governor with the advice and consent of the Senate. The Policy Commission is responsible for preparing and submitting a consolidated budget and allocating state appropriations to supplement institutional operating revenues.

The Fund is comprised of the following: Bluefield State College, Concord College, Eastern West Virginia Community and Technical College, Fairmont State University, Glenville State College, Marshall University (including Marshall University Graduate College), Shepherd University, Southern West Virginia Community and Technical College, West Liberty State College, West Virginia Higher Education Policy Commission (including West Virginia Network for Educational Telecomputing), West Virginia Northern Community College, West Virginia State University, West Virginia School of Osteopathic Medicine, and West Virginia University (including Potomac State College, West Virginia University Institute of Technology, and West Virginia University at Parkersburg regional campuses).

During fiscal year 2004, Senate Bill 448 was passed. Senate Bill 448 created the Council for Community and Technical Colleges (the Council) which has responsibility for all community and technical colleges within the West Virginia Higher Education Fund. As required by Senate Bill 448, beginning for fiscal year ending June 30, 2005, the Council, including all the community and technical college components currently included in the Fund, will be separately audited. Senate Bill 448 also requires the transfer of certain net assets from the four-year institutions and HEPC to the new separately governed two-year community and technical colleges and the Council.

As of July 1, 2003, the Higher Education Fund (the Fund) adopted GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units," an amendment to GASB Statement No. 14. As a result, the new component units' financial statements are included in the Fund's component unit column in the Discretely Presented Major Component Units Financial Statements of the CAFR.

The newly included component units are the separate private nonprofit organizations of each applicable institution that are required to be reported under GASB Statement No. 39. Those organizations report under FASB standards, including FASB Statement No. 117, "Financial Reporting for Not-for-Profit Organizations." As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose ". . . to aid, strengthen and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations . . . ". Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy, and maintain fiscal accountability over funds administered by the foundations. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the basic financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are therefore included with the Fund's financial statements in accordance with GASB Statement No. 39.

The West Virginia University Foundation, Incorporated is appropriately not reported because the economic resources held do not entirely or almost entirely benefit West Virginia University. The Eastern West Virginia Community and Technical College and the Southern West Virginia Community and Technical College foundations are not included because they were not significant to their institutions. The West Virginia School of Osteopathic Medicine's Foundation while material to the institution, is not included in the Fund's financial statements. The Foundation's audited financial statements in accordance with GAAP are not currently available, and the Foundation is not significant to the Fund.

Complete financial statements for any college, university or foundation can be obtained by contacting Mr. Terry Hess at the State College and University Systems of West Virginia, Central Office, 1018 Kanawha Boulevard, E, Suite 700, Charleston, WV 25301.

Regional Jail and Correctional Facility Authority

The Regional Jail and Correctional Facility Authority (hereafter referred to as the Regional Jail Authority) is governed by a seven-member board of which five members are appointed by the Governor. It was formed to replace individual county jails with regional jails. Along with the state correctional institutions, the Regional Jail Authority is part of the consolidated penal system of this State. Although the construction of additional jails is ongoing, the operating focus has become the confinement of prisoners and existing jail operations. A majority of the operations, as well as a majority of the debt service, are financed by per diem fees for prisoners and court fees rather than appropriations from the State. No bonds or other obligations may be issued until the Legislature has approved the purpose and amount of each project.

The nonmajor discretely presented component units are comprised of the following entities:

Educational Broadcasting Authority

The Educational Broadcasting Authority (EBA) consists of eleven members. Seven members are appointed by the Governor. The other four members include the State Superintendent of Schools, one member from the West Virginia Board of Education, and two members from the West Virginia Higher Education Policy Commission. EBA is responsible for extending educational, cultural, and informational experiences to all State citizens. This is accomplished through the construction and operation of noncommercial educational television and radio stations and related facilities statewide. EBA provides statewide telecommunication services for other state and public service agencies for nonbroadcasted activities such as teleconferencing, in-service training, and data delivery. EBA's revenues are derived primarily through donations, with a portion of operational costs supplemented by state and federal grants.

Jobs Investment Trust

The Jobs Investment Trust (the Trust) consists of thirteen members. Eight members are appointed by the Governor and the remaining members include the president of West Virginia University, the president of Marshall University, the chancellor of the West Virginia Higher Education Policy Commission, the executive director of the West Virginia Housing Development Fund, and the executive director of the West Virginia Development Office. The Trust is responsible for improving and promoting economic development in the State, primarily through the issuance of loans to businesses that will stimulate economic growth and provide or retain jobs in the State.

West Virginia State Rail Authority

The West Virginia State Rail Authority (Rail Authority) consists of seven members. Six members are appointed by the Governor and the seventh member is the Secretary of the Department of Transportation. The Rail Authority is responsible for the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State. It can issue bonds and set rates for the rail system. The Rail Authority receives federal and state grants to supplement its cost of operations.

Solid Waste Management Board

The Solid Waste Management Board (the Board) is composed of seven members. Five members are appointed by the Governor and the remaining members are the Secretary of the Department of Health and Human Resources and the Director of the Division of Environmental Protection. The Board is responsible for improving collection and disposal of solid wastes and encouraging recycling, reuse, and recovery of resources from wastes. The Board is the financing mechanism for solid waste projects and is empowered to issue bonds (with approval of the Water Development Authority) and set a rate structure.

Racing Commission

The Racing Commission consists of three members appointed by the Governor, by and with the consent of the Senate. The Racing Commission has full jurisdiction over and shall supervise all horse race meetings, all dog race meetings, and all persons involved in the holding and conducting of horse and dog race meetings. It has the power to set fees and grant licenses and permits pertaining to horse and dog race meetings, as well as, regulate the horse and dog race wagering.

Public Defender Corporation

The Public Defender Corporation represents the combined nonprofit corporations, created under authority of West Virginia Code §29-21, for the purpose of fulfilling the State's obligation to provide legal representation to eligible clients. Funding of the individual public defender corporations is by appropriation disbursed in periodic allotments determined by the executive director of the Public Defender Services, who is appointed by the Governor. The governing body of each public defender corporation is a Board of Directors appointed by the county commissions and the Governor.

Discretely Presented Component Unit Financial Statements

Complete financial statements of the individual discretely presented component units can be obtained directly from their respective administrative offices.

Administrative Offices:

Economic Development Authority
1018 Kanawha Boulevard
Suite 501
Charleston, WV 25301

Parkways, Economic Development
and Tourism Authority
P.O. Box 1469
Charleston, WV 25325-1469

Higher Education Policy Commission
Administrative Services
1018 Kanawha Boulevard, East
Suite 700
Charleston, WV 25301

Educational Broadcasting Authority
600 Capitol Street
Charleston, WV 25301

West Virginia State Rail Authority
120 Water Plant Drive
Moorefield, WV 26836-0470

Racing Commission
106 Dee Drive
Charleston, WV 25311

Housing Development Fund
814 Virginia Street, East
Charleston, WV 25301-2877

Water Development Authority
180 Association Drive
Charleston, WV 25311-1571

Regional Jail Authority
1325 Virginia Street, East
Charleston, WV 25301

Jobs Investment Trust
814 Virginia Street, East
Suite 202
Charleston, WV 25301-2877

Solid Waste Management Board
615 Washington Street, East
Charleston, WV 25311-2126

West Virginia Public
Defender Corporation
1900 Kanawha Boulevard, East
Building 3, Room 330
Charleston, WV 25305

Basis of Presentation

The accompanying basic financial statements of the State of West Virginia (the State) conform to accounting principles generally accepted in the United States (GAAP) for governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP in a similar manner as applied for business activities in the private sector. As a result, the financial statements of certain component units follow the specialized reporting practices of the insurance, housing finance agency and other not-for-profit industries, as prescribed by the GASB and other authoritative sources, including pronouncements of the Financial Accounting Standards Board (FASB).

As allowed by GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting," the State and the majority of its component units have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. The IMB, the Educational Broadcasting Authority, and the Public Defender Corporation have elected to follow all FASB Statements and Interpretations, APB Opinions and ARBs, except those that conflict with or contradict GASB pronouncements.

The basic financial statements have been prepared primarily by the Financial Accounting and Reporting Section (FARS) of the Department of Administration from accounts maintained by the State Auditor's Office, the State Treasurer's Office, and the Investment Management Board. Additional data has been derived from the audited financial statements of certain entities and from reports and data prepared by various state agencies and departments, based on independent or subsidiary accounting records maintained by them.

Certain fund balance and net asset accounts presented for the preceding year have been restated or reclassified. See Note 2 for further explanation.

Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements, which are the statement of net assets and the statement of activities, report information on all the nonfiduciary activities of the primary government and its component units. These activities are reported as governmental

activities, business-type activities or component units. The governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange revenues and are reported separately from the business-type activities. The business-type activities rely significantly on fees and charges to external parties for their support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets presents the State's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

> Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
>
> Restricted net assets result when constraints are placed on net asset use by external creditors, grantors, contributors, etc. or imposed by law through constitutional provisions or enabling legislation.
>
> Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them available for general operations. They also often have constraints on resources imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included in program revenues are reported as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if received in the first 60 days of the new fiscal year. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal awards, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal awards are recognized when the related expenditures have been incurred. Receipts and disbursements of U.S. Government food stamps are accounted for in the General Fund. The electronic benefits transfer (EBT) process for food stamp revenue equal to expenditures is recognized when the underlying transaction (food purchase) occurs. A receivable for the Tobacco Settlement Revenue is recognized based upon the annual estimated payment in the schedule provided by the National Governors Association. Revenues from other sources are recognized when received.

Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences, and claims and judgments, are recorded only when payments are due.

Governmental Fund Types

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than certain debt service activities and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term indebtedness.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure projects (other than those financed by proprietary funds).

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its citizenry. The Irreducible School Fund was constitutionally established for educational purposes and the earnings on the Tobacco Settlement Medical Trust Fund are to support certain health programs of the State.

The State reports the following major governmental funds:

The General Fund is the primary operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State (e.g., health, social assistance, public safety, primary and secondary education), which are not required to be accounted for within other funds.

Transportation has responsibility for the construction, maintenance, and improvement of all state roads; development of public transportation facilities, services, equipment, and methods; and supervision and control of commercial, state, and municipal airports and ports.

The West Virginia Infrastructure and Jobs Development Council coordinates the review and funding of water, wastewater, and economic development projects within the State.

Proprietary Fund Types

Enterprise Funds are used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis, or where the State has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees and charges of the activity. These funds include the State's risk management and insurance funds as well as the West Virginia Lottery, the Alcohol Beverage Control Administration, two water treatment loan programs and the West Virginia Prepaid College Plan.

Internal Service Funds account for the operations of those state agencies that provide goods and services to other state agencies and governmental units on a cost-reimbursement basis. These services include government building and vehicle maintenance and leasing, data processing functions, and the investment and management of state funds. In the government-wide statements, internal service funds are included with governmental activities.

The State reports the following major enterprise funds:

The West Virginia Lottery accounts for lottery ticket revenue, administrative and operating expenses and distribution of net revenue to the General Fund.

The Water Pollution Control Revolving Fund provides low interest loans to communities to upgrade or establish sewer service, to clean up the State's water supply, and assist local governmental entities in complying with the Clean Water Act.

The Workers' Compensation Fund provides compensation for injury or illness sustained during the course of employment.

Employment Security operates local offices throughout the State to serve those seeking and providing employment, through interviewing, testing, counseling, and referral to placement, training, and other services designed to ready individuals for employment.

The Public Employees' Insurance Agency and the Board of Risk and Insurance Management are shown with the proprietary major funds due to their importance to management. In the prior years these funds were included in the Other Enterprise Funds column.

Additionally, the State reports the following fund types:

Fiduciary Fund Types

Pension Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans and defined contribution plan.

Investment Trust Funds report resources in external investment pools that belong to local governments and municipalities.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. The Smart 529 College Savings Plan allows citizens to defer taxes on earnings for college tuition.

Agency Funds are used to account for assets held by the State as an agent for individuals, private organizations or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. Taxes that will be remitted to respective local governments and hospital patient and inmate funds are examples of the State's agency funds.

Interfund Activity and Balances

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: activities between funds reported as governmental activities and funds reported as business-type activities; and activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund expending the resources. An example is lottery proceeds collected by the West Virginia Lottery, but expended by the Department of Education.

Interfund receivables and payables have been eliminated from the statement of net assets, except for the residual amounts due between governmental and business-type activities.

Budgetary Basis of Accounting

The State's budget is adopted in accordance with a statutory basis of accounting which does not conform to GAAP. Revenues are generally recognized when cash is received. Expenditures generally are recorded when the related cash disbursement occurs. At year-end, accounts payable and accrued payroll and related benefits are recognized to the extent they are paid as of July 31, if the goods or services have been encumbered by June 30. If encumbered goods or services are not received by July 31, such encumbrances lapse; therefore, no reserve for encumbrances is reported at year-end. See related budgetary comparison schedule and note in Required Supplementary Information for more details on budgetary matters.

Assets and Liabilities

Cash and Cash Equivalents - Cash equivalents are short-term investments with maturities, when purchased, of three months or less. The State Treasurer principally deposits the State's cash in investment pools maintained by the IMB, and such deposits are generally available with overnight notice. Deposits in the IMB pools that are 2a-7-like pools are reported at amortized cost, which approximates the fair value of underlying securities. Cash deposits in outside bank accounts are considered to be cash and cash equivalents.

Investments - Amounts reported as investments include certain deposits with the IMB that are maintained in investment pools having long-term investment securities designated as trading securities or established to acquire participant-directed securities. Such amounts

also include other investments maintained outside the IMB's authority. Investments are carried at fair value, with the exception of certain assets, which are reported at amortized cost. The fair value of investments is derived primarily from a third-party pricing service based on asset portfolio pricing models and other sources. Futures and option contracts are valued at the last settlement price established each day by the exchange on which they are traded. Investments in commingled investment pools are valued at the reported unit values of the individual funds. The State participates in three external investment pools managed by the IMB. Two are considered 2a-7-like pools and are reported at amortized cost. The third is a longer-term investment pool that carries investments at fair value. Unit transactions in this pool are priced at the pool's current net asset value which fluctuates with changes in the fair value of its investments. Because fair value of the investments of the State Building Fund approximates amortized cost, no noncash change in fair value is reported.

Inventories - Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes. Materials and supplies inventories are physically counted and valued at LIFO, FIFO and average cost at year-end. Inventories of governmental funds are recorded using the consumption method. A reservation of fund balance is recorded for the ending inventory amount, indicating that inventory does not constitute "expendable available financial resources." Proprietary fund and component units' inventories are valued at the lower-of-cost or market, cost being determined on the first-in, first-out method, and are expensed when used.

Tuition Contracts - Revenue related to tuition contracts within the West Virginia Prepaid College Plan (the Plan) is recorded in the year contracts are entered into with the purchaser. Tuition contract revenue is recorded at the present value of future contract payments adjusted for estimated cancellations. Application fees are recognized as revenue when received. Tuition contracts receivable at the balance sheet date represents the Program management's best estimate of the present value of future contract payments using a 7.25% discount rate. An accrued contract benefits liability is recognized based upon the actuarial present value of the future tuition contract obligation. This valuation method reflects the present value of estimated tuition contract benefits that will be paid in future years and is adjusted for the effects of projected tuition and fee increases and termination of contracts. When a beneficiary of the prepaid tuition program is accepted to an eligible college or university, the contract becomes redeemable. Benefits can be transferred to any fully accredited private or out-of-state college or university within the United States in an amount based on the average cost of tuition and fees then charged by West Virginia public colleges and universities. While a beneficiary has up to ten years after high school to use the Plan benefit, four other options are available: 1) the purchaser may transfer the contract benefits to an eligible substitute beneficiary; 2) at any time four years or more after the beneficiary's expected college entrance date, the purchaser may request a refund of the contract benefit

value, less a termination fee and an earnings penalty required by federal law; or 3) at any time, the purchaser may cancel the contract and receive a refund of payments made, less administrative fees and any benefits already paid; or 4) the purchaser may transfer the prepaid contract value to the Program's Savings Plan in accordance with state and federal regulations.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value or estimated fair market value at the time of the donation. In accordance with the capitalization policy adopted by the State for financial reporting, equipment in excess of $25,000 is capitalized. Certain small blended component units follow other capitalization policies which range from $5,000 to $25,000 for equipment. The Higher Education component unit uses $1,000 and $5,000 thresholds. Buildings and improvements which extend the useful lives and/or significantly increase values of capitalized buildings with a combined value in excess of $100,000 are capitalized. All land, regardless of acquisition price, is capitalized.

West Virginia is one of only four states that owns all the roads in the State, except for city streets. Infrastructure was capitalized for the first time in fiscal year 2002. Transportation's infrastructure constructed from July 1, 1980 to July 1, 2001, has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by DOT in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. DOT has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized. Other agencies are capitalizing all infrastructure assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The capital assets are depreciated over their estimated useful lives using the straight-line depreciation method. Amortization of capital lease assets is included with depreciation expense. Equipment, depending on type, is depreciated over 3-20 years. Buildings are depreciated over various lives, ranging from 20-50 years. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The infrastructure assets are depreciated over a period of 20-50 years.

The State possesses certain capital assets that have not been capitalized and depreciated, including works of art and historical treasures, such as monuments, historical documents, paintings, antiques, pioneer, Indian, and Civil War artifacts, etc. GASB Statement No. 34 does not require the capitalization of works of art and historical treasures if the collections are held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The State considers its collections as inexhaustible, protected collections for exhibition and education, not for financial gain.

Insurance Enterprises and Obligations - The Board of Risk and Insurance Management, (BRIM), the Public Employees' Insurance Agency (PEIA) and the Workers' Compensation Fund (WCF) each represent and are accounted for as insurance enterprise funds of the State. These funds follow the guidance of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," and GASB Statement No. 30, "Risk Financing Omnibus." BRIM and PEIA are considered public entity risk pools (enterprise funds). WCF is considered an insurance enterprise fund and follows the guidance of the Financial Accounting Standards Board Statement No. 60, "Accounting and Reporting for Insurance Enterprises," as well as the GASB Statements. Each organization has included the required supplemental information (in accordance with GASB Statement No. 30) in its separately audited financial statements.

Advances - The amount of Economic Development Authority loans held by the State's General Fund at June 30, 2004, is approximately $126.3 million and is recorded as Advances to/from Component Units.

Long-Term Liabilities - In the government-wide financial statements and proprietary fund financial statements, long-term obligations, including claims and judgments, environmental obligations and compensated absences, are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences - Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 240 to 320 hours. Most employees receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is valued at 100% of the balance plus the State's share of Social Security and retirement contributions. In lieu of a cash payment, at retirement an employee can elect to use accumulated annual leave toward their postemployment health care insurance premium. State employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the State, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, eligible employees may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium. If this option is not selected, the leave amount may be applied toward an increase in the employee's retirement benefits with such sick leave constituting additional credited service in computation of such benefits. These options and computations may occur for state employees under the State's retirement systems. Currently, the computation of compensated absences does not include the projected unused sick leave portion expected to be elected as additional credited service towards retirement. However, the unused portion of sick leave that is expected to be converted to additional credited service for retirement benefits is considered in the actuarial valuation used to calculate the net pension obligation. The liability for accumulated sick leave for employees has been recorded in accordance with GASB Statement No. 16, "Accounting for Compensated Absences," using the vesting method.

Net Assets/Fund Balance - The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements.

Reservations - Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect funds legally segregated for a specific use or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

Revenues and Expenditures/Expenses - In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type and discretely presented component units), then further by function (e.g., administration, education, transportation, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal awards), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital Outlay," or "Debt Service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Capital outlay includes expenditures for real property or infrastructure. Debt service includes both interest and principal outlays related to bonds and payments on capital leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g., sales, depreciation, etc.). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources - These additions to governmental fund balances in the fund financial statements include resources and financing provided by bond proceeds, capital leases, and transfers from other funds.

Other Financing Uses - These reductions of governmental fund resources in the fund financial statements normally result from transfers to other funds.

Interfund Services Provided and Used - When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser reports an expenditure or expense, depending on the fund type. Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

Future Adoption of Accounting Pronouncements

Statement No. 40, "Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3," addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The State will implement this standard for fiscal year ending June 30, 2005, but has not yet estimated the impact of adoption of this pronouncement. Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," establishes

accounting and reporting standards for impairment of capital assets and clarifies the accounting requirements for insurance recoveries. The State will implement this standard for the fiscal year ending June 30, 2006, but has not yet estimated the impact of this pronouncement. The State plans to start implementing Statement No. 44 "Economic Condition Reporting: The Statistical Section" (an amendment of NCGA Statement 1) for the fiscal year ending June 30, 2005. This statement should not have a financial impact on the State.

The GASB recently issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions" (OPEB). These new accounting standards will require the OPEB obligation to be actuarially determined; an annual actuarially determined contribution (ARC) in accordance with GASB will be required; an OPEB obligation and related expense will need to be recorded; and there will be additional disclosures. Management has not completed the complex analysis that will be required to comply with the standards, which will not be effective for the State until the period beginning after December 15, 2005 (fiscal year 2007 for Statement No. 43 and fiscal year 2008 for Statement No. 45). Accordingly, the State cannot reasonably estimate the impact on the financial statements of implementing the new standards. However, based on the current level of expenditures/expenses and other preliminary analysis of the OPEB obligation, management expects that the implementation of the proposed standards will have a material effect on financial position, changes in financial position, and cash flows reflected in the financial statements.

Furthermore, Technical Bulletin 2004-2 clarifies the requirements of Statements No. 27, "Accounting for Pensions by State and Local Governmental Employers," and No. 45, expenditures/expense and liabilities by employers in cost-sharing postemployment benefit plans. As it relates to pension transactions, the State will implement the Technical Bulletin for the fiscal year ending June 30, 2005. As the Technical Bulletin relates to OPEB transactions, the provisions of the Technical Bulletin will be applied simultaneously with the requirements of Statement 45 in fiscal year 2008 as described above. The State is in the process of assessing the impact of this technical bulletin and will implement it as of the effective dates.

The GASB recently issued Statement No. 46, "Net Assets Restricted by Enabling Legislation," an amendment of GASB Statement No. 34. The purpose of Statement 46 is to help governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The State will implement this standard for the fiscal year ending June 30, 2006. The State is in the process of assessing the impact of this statement and will implement it as of the effective date.

NOTE 2

RESTATEMENTS, RESTRICTED, AND RESERVED BALANCES

Change in Accounting Principles/Restatement of Beginning Balances

Governmental Activities

The State adopted GASB Technical Bulletin No. 2004-1, "Tobacco Settlement Recognition and Financial Reporting Entity Issues." This technical bulletin resulted in changes to the recognition of a receivable and revenues related to payments to the State under the Master Settlement Agreement with the major tobacco companies. As a result of adopting this technical bulletin, the beginning net assets for the governmental activities is restated as shown below (expressed in thousands).

Discretely Presented Component Units

During the current fiscal year, Higher Education restated its beginning Net Assets balance to include College and University foundations in accordance with GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The addition of the College and University foundations to the Higher Education's financial statements had the following effect on Higher Education's beginning net assets (expressed in thousands):

Net Assets	As Previously Reported	Adjustment	Restated
Governmental Activities	$6,134,675	$ 27,832	$6,162,507
Discretely Presented Component Units	893,193	133,252	1,026,445

Restricted Net Assets

The following tables summarize the restricted net assets of funds included in "other" columns at June 30, 2004 (expressed in thousands):

Fund Type/ Fund	Total Reporting Entity	Capital Projects	Program Administration	Lending Activities	Other Specific Fund Purposes
Enterprise Funds:					
Drinking Water Treatment Revolving Fund	$35,261	$ —	$ —	$35,261	$ —
West Virginia Prepaid College Plan	6	—	6	—	—
	35,267	—	6	35,261	—
Internal Service Funds:					
State Building Fund	21,783	21,783	—	—	—
Discretely Presented Component Units:					
Educational Broadcasting Authority	800	—	—	—	800
Solid Waste Management Board	1,085	—	—	—	1,085
	1,885	—	—	—	1,885
Total	$58,935	$21,783	$ 6	$35,261	$1,885

Reserved Fund Balance (Restated)

The following tables summarize the reserved fund balance of funds included in "other" columns at June 30, 2004 (expressed in thousands):

Fund Type/ Fund	Total Reporting Entity	Inventory	Capital Projects	Debt Service	Program Administration	Permanent Funds
Governmental Funds						
Special Revenue Funds:						
Employment Programs	$ 5,872	$108	$ —	$ —	$5,764	$ —
Debt Service Funds:						
School Building Authority	60,447	—	—	60,447	—	—
West Virginia Infrastructure and Jobs Development Council	62	—	—	62	—	—
Education, Arts, Sciences, and Tourism Fund	24,760	—	—	24,760	—	—
Lease Purchase Accounts	8,509	—	—	8,509	—	—
Economic Development Project Fund	38,009	—	—	38,009	—	—
	131,787	—	—	131,787	—	—
Capital Projects Funds:						
State Road	15	—	15	—	—	—
School Building Authority	106,009	—	106,009	—	—	—
Education, Arts, Sciences, and Tourism Fund	86	—	86	—	—	—
Lease Purchase Accounts	30,735	—	30,735	—	—	—
	136,845	—	136,845	—	—	—
Permanent Funds:						
Irreducible School	1,385	—	—	—	—	1,385
Tobacco Settlement Trust	186,351	—	—	—	—	186,351
	187,736	—	—	—	—	187,736
Total	$462,240	$108	$136,845	$131,787	$5,764	$187,736

The amount reserved for Specific Fund Purposes, $133,371,000, includes other legally segregated accounts in the General Fund such as: flood disaster accounts, funds collected on behalf of injured third parties, certain education funds, certain economic development funds, certain wildlife and conservation funds, escrow accounts, and the Governor's Civil Contingency funds.

Designated Fund Balance

Designation of fund balance in the governmental funds of $138,670,000 represents commitments of the West Virginia Infrastructure and Jobs Development Council to loan funds to applicants for infrastructure projects. After year-end and through August 31, 2004, loan and grant agreements were executed for approximately $9 million of these funds.

NOTE 3

FUND DEFICITS

Individual funds with net asset deficits at June 30, 2004, were as follows (expressed in thousands):

	Net Asset Deficit
Enterprise Funds:	
Workers' Compensation Fund	$2,965,069
Board of Risk and Insurance Management	27,386
West Virginia Prepaid College Plan	11,830
Total Deficits	$3,004,285

Enterprise Funds

Workers' Compensation Fund deficit of $2,965,069,000 and Board of Risk and Insurance Management deficit of $27,386,000 are more fully discussed in Note 14, Risk Management.

West Virginia Prepaid College Plan (the Plan) has a net assets deficiency of approximately $11.8 million as of June 30, 2004. This deficiency was largely caused by investment losses in fiscal year 2002, unexpected tuition increases beginning with the 2002-2003 school year, and changes in estimates of future investment rates of return and tuition growth. The West Virginia College Prepaid Tuition and Savings Program's ability to pay obligations of the Prepaid Tuition Plan is dependent on long-term investment programs and adequate levels of future cash flows.

The Plan sought and received support from the State Legislature in the form of a pledge of assets from the State Unclaimed Property Trust Fund (the Fund) to support payment of plan benefits. In March 2003, the Legislature created the Prepaid Tuition Trust Escrow Account (the Escrow Account) to guarantee payment of plan contracts. The Escrow Account will receive transfers of up to $500,000 from the Fund each year there is an actuarially determined unfunded liability of the Plan. All earnings on the transferred funds will remain in the Escrow Account. In the event the Plan is unable to cover the amount of money

needed to meet its current obligations, funds may be withdrawn from the Escrow Account to meet those obligations. As of June 30, 2003, there was an actuarially determined unfunded liability of approximately $13.5 million in the Plan; therefore, in accordance with the provisions enacted by the Legislature, $500,000 was transferred from the Fund to the Escrow Account in December 2003. The funds were invested and had an investment loss of $1,280 for the period ended June 30, 2004, leaving the account with a balance of $498,720 at the end of the fiscal year. Because there was an actuarially determined unfunded liability of approximately $11.8 million in the Plan as of June 30, 2004, an additional $500,000 is expected to be transferred from the Fund to the Escrow Account on or before December 15, 2004, in accordance with the provisions enacted by the Legislature. Funds transferred or to be transferred into the Escrow Account do not affect the actuarial valuation of the Plan and are not included in the Plan's financial statements.

Also in March 2003, the West Virginia Legislature closed the Plan to new enrollment until the Legislature authorizes it to reopen. The Plan will continue in existence and no current contracts will be affected by the closure. Contract holders will continue to pay any amounts due, and the Plan will continue to pay all benefits due. No contracts were sold in fiscal year 2004. It is unknown what affect, if any, the closure to new enrollment will have on the financial position of the Plan.

Management believes that the Plan will continue to have sufficient liquid resources to meet its obligations as they become due through June 30, 2005. The financial statements do not reflect any adjustments that might result should the elimination of the net assets deficiency fail to be successful.

NOTE 4

CASH AND INVESTMENTS

Cash

At June 30, 2004, information concerning the amount of deposits with financial institutions, including deposits of the State Treasurer's Office, is as follows (expressed in thousands):

	Primary Government	Discretely Presented Component Units	Total Reporting Entity
Carrying Amount of Deposits	$ (31,332)	$172,174	$140,842
Bank Balance of Deposits	138,435	108,125	246,560
Amount Insured or Collateralized	138,434	107,671	246,105
Amount Uninsured	1	454	455

The bank balance as of June 30, 2004, was approximately $246.5 million of which $246.1 million was subject to coverage by the Federal Deposit Insurance Corporation (FDIC), or collateralized by securities held by the State or its agents in the State's name, leaving $455,000 uninsured and uncollateralized. The primary government carrying amount included fiduciary deposits in the amount of $22,353,000.

Investments

The State Treasurer's Office has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions. The State Treasurer's Office is permitted by West Virginia Code §12-1-12A to invest up to $125 million in overnight repurchase agreements, and holds cash equivalents of $61 million at June 30, 2004.

The State Treasurer's Office determines which funds to transfer to the Investment Management Board (IMB) for investment in accordance with West Virginia Code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable. The IMB provides fiscal administration, investment, and management of the State's pension assets except for the State's defined contribution plan for certain teachers and education personnel who self-direct investments in privately managed funds. In addition, local political subdivisions within the State are permitted to invest in certain pools maintained by the IMB.

The IMB maintains the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. The IMB also manages other investment pools which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund and other funds. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's investment operations pool can be found in the IMB's annual report. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or http://www.wvimb.org.

In addition to amounts invested with the IMB, certain governmental funds and discretely presented component units are permitted to invest bond proceeds with a third-party trustee named in the bond indenture. The governmental funds include the Education, Arts, Sciences, and Tourism Fund; School Building Authority; West Virginia Infrastructure and Jobs Development Council, the Department of Health and Human Resources, the Department of Administration, and the Smart 529 College Savings Plan. The following discretely presented component units have reported investments held with a third-party trustee: Regional Jail Authority; Educational Broadcasting Authority; Jobs Investment Trust; Housing Development Fund; Parkways, Economic Development and Tourism Authority; WV State Rail Authority; Water Development Authority; Solid Waste Management Board; and Higher Education. Assets of the Teachers' Defined Contribution Retirement System of the Consolidated Public Retirement Board are held by an outside third party.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); equities; corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; repurchase agreements; state and local government securities (SLGS); and other investments. Other investments consist primarily of single family mortgage loans and collateralized mortgage obligations. SLGS are direct obligations of the U.S. Government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits.

The State's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The IMB invests in derivative financial investments as authorized by its Board of Trustees. As of June 30, 2004, IMB had five types of derivative financial investments: Futures Contracts, Option Contracts, Foreign Exchange Forward Contracts, Credit Default SWAP Agreements, and

Asset-Backed Securities. Additionally, the IMB is indirectly exposed to derivative risk through participation in mutual funds or other investment vehicles that use derivatives. Detailed derivative disclosures are not available for indirect derivative participation.

Futures Contracts A futures contract is an agreement between a buyer or a seller and the clearinghouse of a futures exchange in which the parties agree to buy or sell a commodity, financial instrument or index at a specified future date and price. The IMB invests in financial futures contracts in the Fixed Income Pool, the Large Cap Domestic Equity Pool, and the Non-Large Cap Domestic Equity Pool. Upon entering into a financial futures contract, the IMB is required to pledge to the broker an amount of cash, U.S. Government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Cash (variation margin) is received from or paid to the broker each day for the daily fluctuations of the underlying securities or index. The market risk associated with holding interest rate and stock index futures results from changes in the market value of the contractual positions due to changes in the value of the underlying instruments or indices. IMB limits its exposure to these risks by establishing and monitoring limits on the type and total value of futures contracts that may be held. Credit risk arises from the potential inability of counterparties to meet the terms of the contracts. IMB requires its managers to only utilize futures contracts that are traded on major exchanges or are executed with major dealers. The net change in the futures contract value is settled daily in cash with the exchange on which they were traded. Realized net gains or losses resulting from the settlements are included in the statement of changes in net assets. As of June 30, 2004, the futures contracts had the following open positions (expressed in thousands):

	Value Upon Entering Contract	Value at June 30, 2004	Net Gain or (Loss)
Long-Equity Futures	$ 1,401	$ 1,431	$ 30
Long-Fixed Income Futures	85,576	86,414	838
Short-Fixed Income Futures	(46,248)	(46,792)	(544)

Option Contracts IMB may purchase or write equity, bond, currency, or index option contracts that have recognized liquidity and are actively traded on major exchanges or are executed with major dealers. These option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security, or settle cash for an index option, underlying the contract at an agreed upon price (strike price) during or at the conclusion of a specified period of time. When writing put options, there is a risk that a loss may be incurred if the market price of the underlying instruments decreases and the option is exercised. The risk associated with writing call options is the loss of potential profit if the market price of the security increases and the option is exercised. Purchased put or call options bear the risk of loss of the premium paid if market conditions are not favorable to exercise the option. There may also be risk that the value of the option contract doesn't correlate

perfectly with movements of the underlying instrument due to certain market distortions. To limit its exposure to these risks, the IMB has established limits on the value and use of option contracts. The net change in the option contract value is settled daily in cash with the exchange on which they were traded. Realized net gains or losses resulting from the settlements are included in the Statement of Changes in Net Assets. As of June 30, 2004, there were no open option contracts.

Foreign Exchange Forward Contracts A foreign exchange forward contract is an agreement between two parties to exchange different currencies at a specified exchange rate at an agreed upon future date. The IMB's International Equity Pools' investment managers enter into such contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. Risk associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. These contracts have relatively short durations and are valued at the prevailing market exchange rates at month-end. At June 30, 2004, the IMB was party to outstanding foreign exchange forward contracts to purchase foreign currencies with contract amounts of $27.03 million, collectively. Market values of these outstanding contracts were $27.26 million resulting in net unrealized gains of approximately $230,000. The unrealized gain or loss is reclassified to realized gain or loss when the contract expires and deposited at fair value.

Interest Rate Swaps Interest rate swaps represent an agreement between counterparties to exchange cash flows based on the difference between two interest rates, applied to a notional principal amount for a specified period. Interest rate swaps do not involve the exchange of principal between the parties. Interest is paid or received periodically. These swaps are carried at fair value as either assets or liabilities. Changes in the fair value are recognized in current earnings in the year of change.

Asset-Backed Securities The IMB invests in various asset-backed securities, mortgage-backed securities, and structured corporate debt. The securities are reported at fair value. They are included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk. The IMB invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment and market value of the underlying assets.

Securities Lending The IMB is authorized by statute and policy to participate in a securities lending program. Through its agent, Mellon Bank, the IMB loans securities to various brokers on a temporary basis. The transactions may be terminated at any time with proper notice. Each transaction for U.S. securities is secured by initial collateral of at least 102% of the

market value of the securities loaned. For international securities, the collateral is at least 105% of the market value of the securities on loan. The IMB is not allowed to pledge or sell any collateral securities unless the borrower defaults. Cash collateral received is invested in the Mellon GSL DBT II Collateral Fund. The Collateral Fund operates as a stable value fund and provides for liquidity to meet maturing loans. At June 30, 2004, the Collateral Fund had a weighted average maturity of 43 days. The IMB receives a portion of the income from the investment of the collateral and also continues to receive interest and dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the financial statements of the various investment pools. Under the terms of the contract, Mellon Bank indemnifies the IMB for certain events of borrower default. As of June 30, 2004, the IMB has no credit risk exposure to borrowers because the amounts the IMB owes the borrowers exceed the amounts the borrowers owe the IMB.

At June 30, 2004, the fair value of securities on loan and collateral held by the pools of the IMB are as follows (expressed in thousands). Of the collateral held, $1.37 billion was received as cash.

	Fair Value of Securities on Loan	Collateral Held
Large Cap Domestic	$ 37,577	$ 38,943
Non-Large Cap Domestic	55,272	57,396
International Equity	61,405	65,499
Short-Term Fixed Income	14,854	15,162
Dedicated Fixed Income	509,586	519,929
Fixed Income	409,633	420,299
Cash Liquidity	238,931	243,817
Government Money Market	32,897	33,574
Enhanced Yield	84,803	86,435
IMB Total	$1,444,958	$1,481,054

In accordance with GASB Statement No. 3, investments are classified as to level of risk by the three categories described below:

Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name.

Category 2 includes investments that are uninsured and unregistered, or for which the securities are held by the counterparty's trust department or agent in the State's name.

Category 3 includes uninsured and unregistered investments held by the counterparty or the counterparty's trust department or agent but not in the State's name.

Investments at June 30, 2004, by security type and level of risk category as defined by GASB Statement No. 3, are as follows (expressed in thousands): (Restated)

Primary Government:

Security Type	Category (1)	(2)	(3)	Reported Value	Fair Value
Categorized:					
U.S. Government and Agencies Obligations	$ 938,387	$ —	$ —	$ 938,387	$ 937,974
Corporate Bonds	699,563	—	—	699,563	699,321
Common and Preferred Stocks	2,404,045	—	—	2,404,045	2,404,045
Commercial Paper	465,811	—	—	465,811	465,807
Repurchase Agreements	280,574	9,762	—	290,336	290,336
Investment Contracts	—	87,591	—	87,591	87,591
Total Investments Categorized by Security Type	$4,788,380	$97,353	$ —	—	—
Uncategorized:					
Institutional Mutual Funds				1,543,643	1,543,643
Money Market Mutual Funds				909,147	909,147
Security Lending Short-Term Collateral Pool				1,373,863	1,373,863
Investments in Loans and Mortgages				43	43
Guaranteed Investment Contract				748,575	748,575
Total Primary Government Investments				9,461,004	9,460,345

Discretely Presented Component Units:

Categorized:					
U.S. Government and Agencies Obligations	$ 234,820	$11,815	$ —	246,635	246,626
Corporate Bonds	102,366	—	—	102,366	102,366
Common and Preferred Stocks	68,659	—	—	68,659	68,659
Commercial Paper	80,091	—	—	80,091	80,091
Repurchase Agreements	122,763	15,707	4,145	142,615	142,615
State and Local Government Securities (SLGS)	2,014	—	—	2,014	2,014
Total Investments Categorized by Security Type	$ 610,713	$27,522	$4,145	—	—
Uncategorized:					
Money Market Mutual Funds				84,209	84,209
Other Investments				18,467	18,467
Total Discretely Presented Component Unit Investments				745,056	745,047
Total Investments				$10,206,060	$10,205,392

The following schedule reconciles the amount disclosed as deposits and investments included in this footnote to cash and cash equivalents, investments and restricted cash and investments in the Statement of Net Assets at June 30, 2004, (expressed in thousands):

Deposits:

Cash and Cash Equivalents as Reported on the Statement of Net Assets	$ 3,479,293
Cash and Cash Equivalents as Reported on the Statement of Fiduciary Net Assets	246,893
Add:	
Restricted Cash and Cash Equivalents as Reported	220,816
Less:	
Cash Equivalents and Restricted Cash Disclosed as Investments	(3,598,389)
Cash with U.S. Treasury for Unemployment Programs	(207,771)
Other	—
Reported Value of Deposits as Disclosed in this Footnote	$ 140,842

Investments:

Investments as Reported on the Statement of Net Assets	$ 757,923
Investments as Reported on the Statement of Fiduciary Net Assets	5,636,834
Add:	
Restricted Investments as Reported	166,246
Investment Pool Receivables and Payables Reported as Cash Equivalents and Investments	42,733
Cash Equivalents and Restricted Cash Disclosed as Investments	3,598,389
Accrued Interest Disclosed as Investments	3,956
Other	(21)
Reported Value of Investments as Disclosed in this Footnote	$10,206,060

NOTE 5

RECEIVABLES
(Expressed in Thousands)

Receivables

Receivables at June 30, 2004, consisted of the following:

	Governmental Funds				
	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental	Total Governmental Receivables
Taxes	$336,368	$ 53,408	$ —	$ —	$389,776
Accounts	111,483	77,624	52	21,655	210,814
Loans	3,199	—	269,201	—	272,400
Accrued Interest	906	—	616	4,045	5,567
Total Receivables	451,956	131,032	269,869	25,700	878,557
Allowance for Doubtful Accounts	(83,857)	—	—	(6,315)	(90,172)
Receivables, Net	$368,099	$131,032	$269,869	$19,385	$788,385
As reported on the Fund Financial Statements					
Current Receivables, Net	$368,099	$131,032	$269,869	$19,385	$788,385
Noncurrent Receivables, Net	—	—	—	—	—
Receivables, Net	$368,099	$131,032	$269,869	$19,385	$788,385

	Fiduciary Funds		
	Pension Trust Funds	Private Purpose Trust Fund	Agency Funds
Accounts	$ —	$ —	$ —
Loans	16,730	—	—
Leases	—	—	—
Contributions	31,643	3,891	—
Accrued Interest	—	—	17
Total Receivables	48,373	3,891	17
Allowance for Doubtful Accounts	—	—	—
Receivables, Net	$48,373	$3,891	$17
As reported on the Fund Financial Statements			
Current Receivables, Net	$48,373	$3,891	$17
Noncurrent Receivables, Net	—	—	—
Receivables, Net	$48,373	$3,891	$17

Enterprise Funds								
West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Fund	Employment Securities	Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise	Total Enterprise	Internal Service Funds
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
16,068	235	204,648	34,684	20,634	11,982	11,487	299,738	2,493
—	312,110	—	—	—	—	27,127	339,237	—
—	—	—	—	—	—	21	21	3
16,068	312,345	204,648	34,684	20,634	11,982	38,635	638,996	2,496
—	—	—	—	(1,225)	(539)	—	(1,764)	—
$16,068	$312,345	$204,648	$34,684	$19,409	$11,443	$38,635	$637,232	$2,496
$16,068	$ 15,256	$204,648	$34,684	$19,409	$ 506	$ 4,659	$295,230	$2,496
—	297,089	—	—	—	10,937	33,976	342,002	—
$16,068	$312,345	$204,648	$34,684	$19,409	$11,443	$38,635	$637,232	$2,496

Discretely Presented Component Units							
Economic Development Authority	Housing Development Fund	Parkways, Economic Development & Tourism Authority	Water Development Authority	Higher Education	Regional Jail	Other Component Units	Total Discretely Presented Component Units
$ —	$824,561	$528	$206,717	$ 64,692	$16,698	$ 839	$1,114,035
137,706	42,377	—	13,609	63,302	—	2,217	259,211
19,436	—	—	—	—	—	—	19,436
642	—	—	—	—	—	—	642
2,573	4,709	—	—	—	—	—	7,282
160,357	871,647	528	220,326	127,994	16,698	3,056	1,400,606
(3,500)	(38,059)	—	—	(17,485)	—	—	(59,044)
$156,857	$833,588	$528	$220,326	$110,509	$16,698	$3,056	$1,341,562
$ 15,080	$ 6,734	$528	$ 7,503	$ 65,105	$16,698	$3,056	$ 114,704
141,777	826,854	—	212,823	45,404	—	—	1,226,858
$156,857	$833,588	$528	$220,326	$110,509	$16,698	$3,056	$1,341,562

Taxes Receivable

Taxes receivable at June 30, 2004, consisted of the following:

	Governmental Funds		
	General	Transportation	Total
Taxes Receivable:			
Consumer Sales	$133,755	$ —	$133,755
Personal Income	99,873	—	99,873
Severance	24,328	—	24,328
Business and Occupation	15,827	—	15,827
Automobile Privilege Taxes	—	27,389	27,389
Aviation Fuel Tax	—	49	49
Gasoline Excise	—	25,970	25,970
Insurance	33,258	—	33,258
Corporate Net Income	13,713	—	13,713
Other	15,614	—	15,614
Total	$336,368	$53,408	$389,776

Leases Receivable

The Economic Development Authority has entered into long-term direct financing lease agreements with commercial entities for land, buildings, and equipment. A schedule of future lease amounts due to the Economic Development Authority is as follows:

Year Ended June 30	Direct Financing Leases Amounts Due
2005	$ 5,393
2006	5,119
2007	2,793
2008	1,687
2009	8,027
2010-2014	1,797
Total Minimum Amount Due	24,816
Less Amount Representing Interest	(5,380)
Present Value of Minimum Lease Amount Due	$19,436

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NOTE 6

INTERFUND BALANCES

The following table details the interfund balances and activity as of and for the year ended June 30, 2004, (expressed in thousands):

	Due From			
	Governmental			
Due To	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Nonmajor
Governmental Funds:				
General	$ —	$ 103	$ —	$ 33
Transportation	874	—	—	103
Other Nonmajor Governmental	21,818	—	—	—
Total Governmental Funds	22,692	103	—	136
Proprietary Funds:				
West Virginia Lottery	—	—	—	—
Water Pollution Control Revolving Fund	—	—	—	23
Workers' Compensation Fund	2,587	2,455	—	211
Employment Security	120	2,298	—	39
Public Employees' Insurance Agency	1,551	1,174	—	21
Board of Risk and Insurance Management	—	—	—	—
Other Nonmajor Proprietary	20	27	—	—
Internal Service Funds	3,341	110	—	406
Total Proprietary Funds	7,619	6,064	—	700
Pension Trust Funds	—	1,111	—	—
Discretely Presented Component Units				
Major:				
Parkways, Economic Development and Tourism Authority	—	—	—	—
Water Development Authority	—	—	73	—
Higher Education	6,478	366	—	344
Regional Jail Authority	56	—	—	—
Nonmajor:				
State Rail Authority	—	494	—	—
Educational Broadcasting	—	—	—	—
Total Discretely Presented Component Units	6,534	860	73	344
Total	$36,845	$8,138	$73	$1,180

The general fund Due to Other Funds includes $3,341,000 to the Internal Service Funds which is made up of $134,000 for building rent, $2,837,000 for computer services, and $370,000 for vehicle rentals; and $6,478,000 to Higher Education for the Promise Scholarship. The general fund Due from Other Funds includes $36,740,000

Due From									
Proprietary									
West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Fund	Employment Security	Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Nonmajor	Internal Service Funds	Discretely Presented Component Units	Total
$36,740	$ —	$3,175	$ —	$135	$—	$35	$ 47	$5,550	$ 45,818
—	—	2,603	—	—	—	—	40	142	3,762
1,000	22	721	—	2	—	—	14	—	23,577
37,740	22	6,499	—	137	—	35	101	5,692	73,157
—	—	18	—	—	—	—	—	—	18
—	—	—	—	—	—	—	—	—	23
9,000	—	—	24	—	—	24	1	1,544	15,846
—	—	—	—	150	—	—	—	566	3,173
—	—	25	—	—	—	—	—	41	2,812
—	—	113	—	—	—	—	—	—	113
—	—	—	—	1	—	—	—	—	48
15	—	290	—	51	10	22	3	100	4,348
9,015	—	446	24	202	10	46	4	2,251	26,381
—	—	—	—	—	—	—	—	—	1,111
—	—	245	—	—	—	—	—	—	245
—	41	—	—	—	—	8	—	—	122
—	—	1,237	—	132	—	—	2	32	8,591
—	—	258	—	—	—	—	—	—	314
—	—	12	—	—	—	—	—	—	506
472	—	—	—	—	—	—	1	—	473
472	41	1,752	—	132	—	8	3	32	10,251
$47,227	$63	$8,697	$24	$471	$10	$89	$108	$7,975	$110,900

from Lottery of which $14,372,000 goes to the general fund, $3,888,000 to Corrections, $2,682,000 to Library Commission, $10,126,000 to Senior Services, $1,050,000 to Department of Health and Human Resources, and $1,185,000 to Culture and History.

NOTE 7

INTERFUND TRANSFERS (Restated)

Interfund transfers for the year ended June 30, 2004, consisted of the following (expressed in thousands):

	Transfers From		
	Governmental		
Transfers To	General	West Virginia Infrastructure and Jobs Development Council	Other Nonmajor
Governmental Funds:			
General	$ —	$ —	$ 2,678
Transportation	4,917	—	—
West Virginia Infrastructure and Jobs Development Council	—	—	4,447
Other Nonmajor Governmental	120,953	—	3,981
Total Governmental Funds	125,870	—	11,106
Proprietary Funds:			
Water Pollution	2,919	—	29,881
Workers' Compensation Fund	5,000	—	—
Board of Risk and Insurance Management	1,942	—	—
Other Nonmajor Proprietary	2,774	1,610	—
Internal Service Funds	7,697	—	—
Total Proprietary Funds	20,332	1,610	29,881
Total	$146,202	$1,610	$40,987

The Department of Environmental Protection transferred $29.8 million to the Water Pollution Control Revolving Fund for the treatment of water quality within the State. The West Virginia Lottery transferred, as mandated by State Code, $20 million to the School Building Authority for capital grants and $18 million for bond debt service, $40 million to the West Virginia Infrastructure and Jobs Development Council, and $352 million to

Transfers From				
Proprietary				
West Virginia Lottery	Employment Security	Internal Service Funds	Other Nonmajor	Total
$352,223	$ —	$1,009	$9,827	$365,737
—	—	—	—	4,917
40,000	—	—	—	44,447
47,997	1,669	—	—	174,600
440,220	1,669	1,009	9,827	589,701
—	—	—	—	32,800
9,000	—	—	—	14,000
—	—	—	—	1,942
—	—	—	—	4,384
3,574	—	—	—	11,271
12,574	—	—	—	64,397
$452,794	$1,669	$1,009	$9,827	$654,098

the general fund. The general fund transferred $22.6 million to the School Building Authority for bond debt service and $30 million for capital grants. The general fund also transferred $24 million to the West Virginia Infrastructure and Jobs Development Council and $18.9 million to the Economic Development Project Fund for debt service. All other transfers are made to finance various programs as authorized by the Legislature.

NOTE 8

RESTRICTED ASSETS

Restricted assets are held by enterprise funds, internal service funds and discretely presented component units, primarily for the repayment of future long-term obligations and benefits payments. The restricted assets, composed of cash, investments, and other similar assets at June 30, 2004, are as follows (expressed in thousands):

	Cash	Investments	Other	Totals
Enterprise:				
West Virginia Lottery	$ —	$ 3,042	$ —	$ 3,042
Public Employees' Insurance Agency	3,943	—	—	3,943
Board of Risk and Insurance Management	57,203	16,910	57,450	131,563
	61,146	19,952	57,450	138,548
Internal Service:				
State Building Fund	26,468	—	—	26,468
Travel Management	1,944	—	—	1,944
	28,412	—	—	28,412
Discretely Presented Component Units:				
Economic Development Authority	12,342	—	—	12,342
Housing Development Fund	101,386	97,022	807,954	1,006,362
Parkways, Economic Development and Tourism Authority	4,146	33,565	—	37,711
Water Development Authority	5,489	15,707	206,717	227,913
Regional Jail Authority	270	—	—	270
Educational Broadcasting Authority	8	—	321	329
West Virginia State Rail Authority	533	—	—	533
Solid Waste Management Board	527	—	758	1,285
Racing Commission	6,557	—	—	6,557
	131,258	146,294	1,015,750	1,293,302
Total	$220,816	$166,246	$1,073,200	$1,460,262

Enterprise Funds

The West Virginia Lottery's assets are restricted to pay the deferred prize claims awarded on an annuity basis. The Board of Risk and Insurance Management's (BRIM) cash and investment assets include funds to provide mine subsidence, medical malpractice, and general liability insurance coverage. BRIM's other restricted assets of $46.5 million are advance deposits with insurance companies and $10.9 million in receivables. The Public Employees' Insurance Agency's restricted assets are the premium stabilization fund consisting of accumulated dividends and interest on optional life insurance policies to defray future premium increases.

Internal Service Funds

The State Building Fund's restricted assets are held in trust primarily for the costs of asbestos removal. Travel Management Fund's restricted assets are held in escrow for capital outlay.

Discretely Presented Component Units

The Economic Development Authority's assets are restricted to provide assurance that adequate amounts will be available to repay notes secured by the real estate being leased and to guarantee portions of certain loans made for economic development purposes. The Housing Development Fund's cash and investment assets are restricted on behalf of mortgagors and for payments collected on mortgages for which the fund acts as servicer only. Other restricted assets for the Housing Development Fund of $808 million include federal program receivables and foreclosed properties from defaulted federal program loans. The Parkways, Economic Development and Tourism Authority's assets are restricted to be used for construction, turnpike maintenance and operation, and debt service. The cash and investment assets of the Water Development Authority are restricted as part of applicable bond covenants and the other restricted assets are $207 million restricted for revenue bonds receivable net of unamortized discount and accrued interest receivable. The Regional Jail and Correctional Facility Authority's assets are restricted because of a safekeeping arrangement with inmates. Educational Broadcasting Authority's cash is restricted for the Star Schools Program, a multistate distance learning project. The West Virginia State Rail Authority's assets are restricted for debt service payments. The Solid Waste Management Board's assets are restricted because their use is limited by applicable repayment agreements. The West Virginia Racing Commission's cash is restricted for the unclaimed winning tickets and other trust holdings which are mandated by West Virginia State Code.

NOTE 9

CAPITAL ASSETS

Governmental Activities
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 732,935	$ 82,332	$ (55)	$ 815,212
Construction in Progress	767,226	465,623	(282,127)	950,722
Total Capital Assets, Not Being Depreciated	1,500,161	547,955	(282,182)	1,765,934
Capital Assets, Being Depreciated:				
Buildings and Improvements	619,870	27,211	(2,045)	645,036
Equipment	297,995	17,317	(12,526)	302,786
Infrastructure	7,397,556	261,422	(6,369)	7,652,609
Library Holdings	15,632	68	(777)	14,923
Land Improvements	9,770	442	—	10,212
Total Capital Assets, Being Depreciated	8,340,823	306,460	(21,717)	8,625,566
Less Accumulated Depreciation for:				
Buildings and Improvements	(257,053)	(16,747)	1,853	(271,947)
Equipment	(217,733)	(21,345)	10,852	(228,226)
Infrastructure	(2,615,265)	(235,487)	409	(2,850,343)
Library Holdings	(13,947)	(592)	752	(13,787)
Land Improvements	(3,071)	(571)	—	(3,642)
Total Accumulated Depreciation	(3,107,069)	(274,742)	13,866	(3,367,945)
Total Capital Assets Being Depreciated, Net	5,233,754	31,718	(7,851)	5,257,621
Governmental Activities Capital Assets, Net	$ 6,733,915	$ 579,673	$(290,033)	$ 7,023,555

Depreciation expense was charged to functions as follows:

Legislative	$ 29
Judicial	512
Executive	299
Administration	10,238
Commerce	2,985
Environmental Protection	451
Employment Programs	238
Education	806
Health and Human Resources	2,874
Military Affairs and Public Safety	5,572
Tax and Revenue	174
Transportation	250,391
Miscellaneous Boards and Commissions	173
Total Governmental Activities Depreciation Expense	$274,742

Business-type Activities
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 611	$ —	$ —	$ 611
Total Capital Assets, Not Being Depreciated	611	—	—	611
Capital Assets, Being Depreciated:				
Buildings and Improvements	2,376	—	—	2,376
Equipment	17,486	1,284	(302)	18,468
Total Capital Assets, Being Depreciated	19,862	1,284	(302)	20,844
Less Accumulated Depreciation for:				
Buildings and Improvements	(877)	(175)	—	(1,052)
Equipment	(8,696)	(2,469)	134	(11,031)
Total Accumulated Depreciation	(9,573)	(2,644)	134	(12,083)
Total Capital Assets, Being Depreciated, Net	10,289	(1,360)	(168)	8,761
Business-type Activities Capital Assets, Net	$10,900	$(1,360)	$(168)	$ 9,372

Depreciation expense was charged to functions as follows:

West Virginia Lottery	$ 1,913
Workers' Compensation Fund	529
Public Employees' Insurance Agency	46
Alcohol Beverage Control Administration	156
Total Business-type Activities Depreciation Expense	$ 2,644

Discretely Presented Component Units
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Discrete Component Unit Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 121,445	$ 4,296	$ (180)	$ 125,561
Construction in Progress	97,612	115,108	(52,466)	160,254
Total Capital Assets, Not Being Depreciated	219,057	119,404	(52,646)	285,815
Capital Assets, Being Depreciated:				
Buildings and Improvements	1,426,282	54,577	(1,624)	1,479,235
Equipment	350,199	45,297	(13,650)	381,846
Infrastructure	969,192	21,290	(50)	990,432
Library Holdings	102,227	6,344	(901)	107,670
Land Improvements	19,915	1,274	(41)	21,148
Total Capital Assets, Being Depreciated	2,867,815	128,782	(16,266)	2,980,331
Less Accumulated Depreciation for:				
Buildings and Improvements	(422,594)	(34,115)	751	(455,958)
Equipment	(228,855)	(38,789)	11,288	(256,356)
Infrastructure	(454,949)	(34,734)	(121)	(489,804)
Library Holdings	(79,337)	(5,902)	525	(84,714)
Land Improvements	(8,034)	(1,161)	—	(9,195)
Total Accumulated Depreciation	(1,193,769)	(114,701)	12,443	(1,296,027)
Total Capital Assets Being Depreciated, Net	1,674,046	14,081	(3,823)	1,684,304
Discrete Component Unit Activities Capital Assets, Net	$ 1,893,103	$ 133,485	$(56,469)	$ 1,970,119

Depreciation expense was charged to Discrete Component Units as follows:

Economic Development Authority	$ 2,598
Housing Development Fund	24
Parkways, Economic Development and Tourism Authority	28,675
Water Development Authority	39
Higher Education	74,484
Educational Broadcasting Authority	3,435
Jobs Investment Trust	67
West Virginia State Rail Authority	1,137
Solid Waste Management Board	14
Regional Jail Authority	4,145
Racing Commission	11
Public Defenders Corporation	72
Total Discrete Component Unit Depreciation Expense	$114,701

NOTE 10

LONG-TERM OBLIGATIONS (Restated)

Primary Government:

Long-term obligations at June 30, 2004, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Balance June 30, 2003	Additions	Reductions	Other Changes	Balance June 30, 2004	Amount Due Within One Year
Governmental Activities						
General Obligation Bonds:						
Transportation	$ 517,500	$ —	$ (23,070)	$ —	$ 494,430	$ 24,215
Premium/(Discount)	3,456	—	(675)	—	2,781	—
Total Transportation	520,956	—	(23,745)	—	497,211	24,215
School Building	2,000	—	(2,000)	—	—	—
WV Infrastructure and Jobs Development Council	281,679	—	(4,230)	—	277,449	4,435
Total General Obligation Bonds	804,635	—	(29,975)	—	774,660	28,650
Revenue Bonds:						
School Building Authority	300,440	—	(24,490)	—	275,950	27,218
(Discount)	(982)	—	57	—	(925)	—
Total School Building Authority	299,458	—	(24,433)	—	275,025	27,218
Education	2,238	—	(52)	(3)	2,183	55
WV Infrastructure and Jobs Development Council	44,865	45,000	(315)	—	89,550	840
(Discount)	—	(321)	—	—	(321)	—
Total WV Infrastructure and Jobs Development Council	44,865	44,679	(315)	—	89,229	840
Education, Arts, Sciences, and Tourism Fund	62,545	—	(6,690)	—	55,855	7,025
Economic Development Project Fund	—	249,895	—	—	249,895	13,890
(Discount)	—	(1,398)	—	—	(1,398)	—
Total Economic Development Project Fund	—	248,497	—	—	248,497	13,890
Total Revenue Bonds	409,106	293,176	(31,490)	(3)	670,789	49,028
Capital Leases (See Note 11)	300,899	17,423	(18,062)	(33)	300,227	15,113
Other Obligations:						
Accrued and Other Liabilities (See Note 15)	401,091	25,909	(125,027)	—	301,973	4,545
Compensated Absences	250,427	33,751	(9,772)	—	274,406	66,717
Net Pension Obligation (See Note 12)	254,102	25,856	—	—	279,958	—
Total Other Obligations	905,620	85,516	(134,799)	—	856,337	71,262
Total Governmental Activities Long-Term Obligations	$2,420,260	$396,115	$(214,326)	$(36)	$2,602,013	$164,053
Business-type Activities						
Accrued Tuition Contract Benefits	$ 98,442	$ 6,899	$ —	$ —	$ 105,341	$ 4,076
Insurance and Compensation	4,471,527	19,203	(107,278)	—	4,383,452	664,672
Liabilities Payable from Restricted Assets	3,985	2,796	—	—	6,781	1,200
Compensated Absences	7,638	467	(122)	—	7,983	2,252
Total Business-type Activities Long-Term Obligations	$4,581,592	$ 29,365	$(107,400)	$ —	$4,503,557	$672,200

The assets of the general fund, special revenue, and internal service funds are used to liquidate the capital lease obligations and accrued and other liabilities of their respective fund types. Compensated absences liabilities are liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations are liquidated by the State's governmental and internal service funds that contribute toward the pension funds based on plans established by the action of the State Legislature. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year-end $3.8 million of internal service funds compensated absences are included in the governmental amounts.

General Obligation Bonds – The State has constitutionally limited its ability to incur debt. The State's general obligation debt must be authorized by constitutional amendment. A proposed amendment must be approved by two-thirds of both the Senate and the House of Delegates before it can be ratified or rejected by the voters. Once the amendment has voter approval, the Legislature must pass specific legislation authorizing the issuance of general obligation debt. General obligation bonds outstanding at June 30, 2004, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s)%	Balance
Transportation Bonds:			
Payable from State Road Fund, Issued Under:			
1973 Amendment	2006	5.625-6.10	$ 5,090
1996 SAFE Roads Amendment	2025	3.50-5.75	492,121
			497,211
Infrastructure Bonds:			
Payable from dedicated severance tax revenues	2027	4.30-8.00	277,449
Total			$774,660

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2004, were as follows (expressed in thousands):

Year Ended June 30	Principal	Interest	Total
2005	$ 28,650	$ 37,265	$ 65,915
2006	32,862	36,799	69,661
2007	37,097	36,398	73,495
2008	38,508	34,992	73,500
2009	40,007	33,496	73,503
2010-2014	201,459	141,289	342,748
2015-2019	161,968	99,152	261,120
2020-2024	163,355	71,448	234,803
2025-2029	67,973	26,018	93,991
	771,879	516,857	1,288,736
Premium	2,781	—	2,781
Total	$774,660	$516,857	$1,291,517

Revenue Bonds – Revenue bonds are issued by various State departments, agencies and authorities and economic development projects. Revenue bonds are issued pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Principal and interest payments are made from specifically dedicated fees and other revenues. Revenue bonds do not constitute a general obligation of the State. The following describes the dedicated revenue source of revenue bonds outstanding at June 30, 2004:

School Building Authority	-	Certain net profits of the West Virginia Lottery
Department of Education	-	Revenues from Cedar Lakes Conference Center
WV Infrastructure and Jobs Development Council	-	Certain repayment of defined loans
Education, Arts, Sciences, and Tourism Fund	-	Certain net profits of the West Virginia Lottery
Economic Development Project Fund	-	Certain net profits of the West Virginia Lottery

Revenue bonds outstanding at June 30, 2004, were as follows (expressed in thousands):

	Issue Date	Final Maturity Date	Interest Rate(s)%	Balance
School Building Authority	1990-2002	2022	2.75-7.00	$275,025
Department of Education	1996	2025	5.75-6.00	2,183
WV Infrastructure and Jobs Development Council	2001-2004	2039-2040	2.5-5.75	89,229
Education, Arts, Sciences, and Tourism Fund	1997	2011	5.00-5.50	55,855
Economic Development Project Fund	2004	2026	1.20-6.07	248,497
Total				$670,789

Future amounts required to pay principal and interest on revenue bonds at June 30, 2004, were as follows (expressed in thousands):

Year Ended June 30	Principal	Interest	Total
2005	$ 49,028	$ 27,297	$ 76,325
2006	24,227	32,032	56,259
2007	27,002	31,054	58,056
2008	26,591	29,778	56,369
2009	29,595	29,362	58,957
2010-2014	137,033	120,947	257,980
2015-2019	152,393	88,513	240,906
2020-2024	134,492	46,095	180,587
2025-2029	54,817	16,456	71,273
2030-2034	16,925	7,956	24,881
2035-2039	19,035	3,019	22,054
2040	2,295	60	2,355
	673,433	432,569	1,106,002
Discount	(2,644)	—	(2,644)
Total	$670,789	$432,569	$1,103,358

Certain revenue bonds have call provisions providing for redemption at the option of the State, beginning ten years following the date of issuance, in whole or in part, in inverse order of maturity, and pay a redemption price not exceeding 103% of par value.

Summary of Discretely Presented Component Unit Debt
(Expressed in Thousands)

	Balance June 30, 2003	Debt Issued	Debt Paid	Other Changes	Balance June 30, 2004	Amount Due Within One Year
Revenue Bonds:						
Housing Development Fund	$ 783,013	$ 84,300	$(180,567)	$ 409	$ 687,155	$41,035
Parkways, Economic Development and Tourism Authority	114,807	—	(6,445)	1,572	109,934	2,881
Water Development Authority	219,029	102,120	(115,090)	575	206,634	3,302
Higher Education	405,954	100,367	(97,911)	—	408,410	14,191
Regional Jail Authority	101,395	—	(3,585)	—	97,810	3,760
Total Discretely Presented Component Unit Revenue Bonds	$1,624,198	$286,787	$(403,598)	$2,556	$1,509,943	$65,169
Capital Leases:						
Economic Development Authority	$ 11,536	$ 2,427	$ (687)	$ —	$ 13,276	$ 1,179
Higher Education	29,315	10,811	(7,519)	864	33,471	5,754
Educational Broadcasting Authority	197	—	(100)	—	97	97
Jobs Investment Trust	10,464	3,128	—	862	14,454	—
West Virginia State Rail Authority	1,922	—	(320)	(17)	1,585	362
Public Defender Corporation	—	53	—	—	53	2
Total Discretely Presented Component Unit Capital Leases	$ 53,434	$16,419	$ (8,626)	$1,709	$ 62,936	$ 7,394

Discretely Presented Component Units

Revenue Bonds – Revenue bonds are issued by various component units pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Principal and interest payments are made from specifically dedicated fees and other revenue sources, such as tuition and registration fees, dedicated court fees, mortgage loan repayments, and certain non-toll revenues. Revenue bonds do not constitute general debt of the State (expressed in thousands).

	Issue Date	Final Maturity Date	Interest Rate(s)%	Balance
Housing Development Fund	1992-2004	2039	1.352 - 9.00	$ 687,155
Parkways, Economic Development and Tourism Authority	1993-2003	2019	3.50 - 7.00	109,934
Water Development Authority	1995-2003	2040	2.00 - 6.375	206,634
Higher Education	1969-2003	2033	3.75 - 6.26	408,410
Regional Jail Authority	1998	2021	4.31 - 5.35	97,810
Total Revenue Bonds				$1,509,943

Future amounts required to pay principal and interest on revenue bonds of the discretely presented component units at June 30, 2004, were as follows (expressed in thousands):

Year Ended June 30	Principal	Interest	Total
2005	$ 66,001	$ 81,482	$ 147,483
2006	50,562	79,054	129,616
2007	52,534	76,108	128,642
2008	57,390	67,386	124,776
2009	56,190	64,554	120,744
2010-2014	278,821	290,516	569,337
2015-2019	294,060	236,472	530,532
2020-2024	278,927	166,134	445,061
2025-2029	250,844	97,092	347,936
2030-2034	116,933	32,003	148,936
2035-2039	21,960	4,270	26,230
2040-2044	4,745	169	4,914
	1,528,967	1,195,240	2,724,207
Discount	(37,769)	—	(37,769)
Premiums	18,745	—	18,745
Total	$1,509,943	$1,195,240	$2,705,183

Parkways, Economic Development and Tourism Authority

In 2003, the Parkways, Economic Development and Tourism Authority (Parkways) issued $63,900,000 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding $61,280,000 of Parkways' Series 1993 Bonds. This refunding resulted in a $7,896,000 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated $568,000 in 2004. Parkways completed the refunding to reduce its aggregate debt service payment by $7,270,000 over a 17-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of $4,851,000. The Series 2003 bonds bear interest at the Weekly Interest Rate determined by the remarketing agent on Tuesday of each week. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2003, Parkways entered into an interest rate swap in connection with its 2003 Variable Rate Demand Revenue Refunding Bonds. The intention of the swap was to effectively change Parkway's variable interest rate on the bonds to a synthetic fixed rate of 4.387%.

The bonds and the related swap agreement mature on May 1, 2019, and the swap's notional amount of $63,900,000 matches the $63,900,000 variable rate bonds, Series 2003. Under the swap, Parkways pays the counterparty a fixed payment of 4.387% and receives a variable payment computed as 67% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable rate is based on The Bond Market Association Municipal Swap Index (BMA).

Because interest rates have declined since the execution of the swap, the swap had a negative fair value of $5,180,094 as of June 30, 2004. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

As of June 30, 2004, Parkways was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Parkways would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Standard & Poor's and Aa by Moody's Investor's Service as of June 30, 2004.

The swap exposes Parkways to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference would be indicated by a difference between the intended synthetic rate and the synthetic rate as of June 30, 2004. If a change occurs that results in rates moving to convergence, the expected cost saving may not be realized. As of June 30, 2004, the BMA rate was 1.05%, whereas 67% of the LIBOR was 1.64%.

Parkways or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, Parkways would be liable to the counterparty for a payment equal to the swap's fair value.

Using rates as of June 30, 2004, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds			
Year Ended June 30	Principal	Interest	Interest Rate Swap, Net	Total
2005	$ 200	$ 561	$ 2,394	$ 3,155
2006	200	670	2,331	3,201
2007	300	668	2,268	3,236
2008	3,900	665	2,239	6,804
2009	4,300	624	2,104	7,028
2010-2014	24,100	2,407	8,136	34,643
2015-2019	30,700	999	3,329	35,028
	$63,700	$6,594	$22,801	$93,095

Debt Contingencies and No-Commitment Debt

As a vehicle to assist the local and other non-State governments in West Virginia, the State may appropriate sufficient amounts to meet any deficiencies that may arise because of failures by such entities to provide for debt service payments for obligations under the supervision and control of the Municipal Bond Commission. For the year ended June 30, 2004, no such amounts were transferred to the Municipal Bond Commission under this agreement.

The Hospital Finance Authority (HFA), the Public Energy Authority (PEA), and the Economic Development Authority (EDA) have issued bonds on behalf of third parties that in no way obligates the State, HFA, PEA, or EDA, for these debt issuances, unless these entities or the State serve in a third-party role. The obligations become an obligation of the third party when issued, because all rights to payments and/or obligations have been irrevocably assigned to a trustee. Payments are made directly to the trustee from dedicated revenues of the third parties, in accordance with the related bond indentures. The amount of such no-commitment debt outstanding at June 30, 2004, is approximately $921 million, $111 million, and $751 million for HFA, PEA, and EDA, respectively.

Included in the $751 million EDA current value is $275 million related to bonds issued by EDA specifically for the construction of correctional, public safety, and other State office facilities. The bonds are limited obligations of the EDA, payable solely out of rental revenue derived under the indenture and the contracts of lease-purchase between the EDA and the State. The bonds shall never constitute an indebtedness of the State or the issuer within the meaning of any constitutional provision or statutory limitation, nor are they a charge against the property, general credit, or taxing power, if any, of the state or issuer. The State's obligation to pay rentals is subject to and dependent upon yearly appropriations being made by the State Legislature sufficient for such purpose. If the State Legislature does not make an appropriation to pay the lease rentals or the State provides a 30-day notice of cancellation, the contracts of lease-purchase shall be terminated, and the State is to surrender possession of the related facilities. The State has recorded the leasing arrangements as capital lease obligations, included in the lease amounts disclosed in Note 11.

The Housing Development Fund (HDF) has a $15 million line of credit with the Federal Home Loan Bank that is available as a warehouse line for the purchase of single-family, multi-family and secondary market loans. This line of credit is secured by investments of the Bond Insurance Fund and is a general obligation of the HDF. At June 30, 2004, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

Current Year Extinguishment of Debt

Housing Development Fund

During the fiscal year ended June 30, 2004, the Housing Development Fund redeemed $160,682,000 of bonds at a redemption price which approximated their carrying value. The impact of the early redemption on the financial statements was not material and there was no debt reissued.

The Housing Finance Bonds 2003 Series C were issued on November 25, 2003, to refund the Housing Finance Bonds 1992 Series E and the New Multi-Unit Bonds on December 1, 2003. As a result of the 1992 Series E and the New Multi-Unit refundings, aggregate debt service payments will be reduced by $3,912,000 over a six-year life (remaining life of the refunded bonds), resulting in an estimated economic gain of $2,919,000.

Water Development Authority

On September 24, 2003, the Water Development Authority (WDA) issued three series of refunding bonds. Series 2003 AI, issued for $24,925,000 with interest rates ranging from 2.50% to 5.25%, was used to refund $26,400,000 of the remaining balance of WDA's outstanding Series 1993 AI refunding bonds with interest rates ranging from 5.10% to 5.80%. The net proceeds of $25,241,066 (including original issue premium of $316,066) and other funds available to WDA were used to pay $363,805 in underwriting fees, insurance and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the November 1, 2003, redemption of the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $5,716,279. Adjusted for 2004 amortization of $165,689, this difference is being charged to nonoperating expenses through fiscal year 2027 using the straight-line method. WDA completed the refunding to reduce its total debt service payments over the next 23 years by $897,687 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $922,010.

Series 2003 B, issued for $53,750,000 with interest rates ranging from 2.50% to 5.25%, was used to refund $54,580,000 of the remaining balance of WDA outstanding Series 1993 AII refunding bonds with interest rates ranging from 5.50% to 6.10%. The net proceeds of $55,810,632 (including original issue premium of $2,060,632) were used to

pay $810,887 in underwriting fees, insurance and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the November 1, 2003, redemption of the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $4,387,616. Adjusted for 2004 amortization of $112,503, this difference is being charged to nonoperating expenses through fiscal year 2030 using the straight-line method. WDA completed the refunding to reduce its total debt service payments over the next 26 years by $8,384,828 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $4,021,630.

Series 2003 C, issued for $17,890,000 with interest rates ranging from 2.50% to 5.00%, was used to refund $17,190,000 of the remaining balance of the WDA outstanding Series 1993 BII revenue bonds with interest rates ranging from 5.50% to 5.88%. The net proceeds of $17,801,898 (after original issue discount of $88,102) were used to pay $278,282 in underwriting fees, insurance and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust with an escrow agent providing for the November 1, 2003, redemption of the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $1,310,159. Adjusted for 2004 amortization of $29,115, this difference is being charged to nonoperating expenses through fiscal year 2034 using the straight-line method. WDA completed the refunding to reduce its total debt service payments over the next 30 years by $2,563,590 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,291,984.

On September 24, 2003, WDA issued Series 2003 D for $5,555,000 in refunding bonds with interest rates ranging from 2.50% to 4.85% to refund $5,125,000 of the remaining balance of WDA's outstanding Series 1994 A revenue bonds with interest rates ranging from 5.40% to 6.20%. The net proceeds of $5,544,016 (after original issue discount of $10,984) were used to pay $79,801 in underwriting fees, insurance and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust with an escrow agent providing for the November 1, 2004, redemption of the bonds. As a result of this advance refunding, $5,125,000 of bonds are considered to be defeased; and the liability for those bonds has been removed from the financial statements. The refunding resulted in a

difference between the reacquisition price and the net carrying amount of the refunded debt of $493,748. Adjusted for 2004 amortization of $15,675, this difference is being charged to nonoperating expenses through fiscal year 2025 using the straight-line method. WDA completed the refunding to reduce its total debt service payments over the next 21 years by $468,990 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $295,436.

Higher Education

The Series 2003 A University Facility Bonds and the Series 2003 A College Facility Bonds were issued in August 2003 under the provisions of the Code of West Virginia, 1931, as amended, particularly Chapters 13 and 18. These bonds were issued to provide monies which, together with other monies available to the respective boards, were used to (i) refund and defease all outstanding University System of West Virginia Board of Trustees, Series 1992 Bonds and (ii) to provide for the payment of costs of issuing the 2003 Series A Revenue Refunding Bonds. The total cash flow savings for the remaining life of the bonds was approximately $8 million. The economic gain of the refinancing was approximately $6.8 million.

Prior Defeasances

In prior years, the State defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 2004, the following outstanding bonds are considered defeased (expressed in thousands):

	Outstanding Amount
Primary Government	$ 940
Discretely Presented Component Units	93,325
Total	$94,265

NOTE 11

LEASES

The State has entered into various lease/purchase agreements with the private sector, primarily for buildings and equipment. These agreements, accounted for as capital leases, are for various terms. While most of these agreements contain clauses indicating that their continuation is subject to continuing appropriation by the Legislature, these leases are accounted for as capital leases and are considered noncancelable for financial reporting purposes.

GAAP requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee. For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures. For budgetary purposes, lease payments are only reported as expenditures when paid. In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception.

The following table is an analysis of the property acquired under capital leases by asset category at June 30, 2004, (expressed in thousands):

	Primary Government	
	Governmental Activities	
Asset Type	Assets Acquired by Capital Lease	Accumulated Depreciation
Land	$ 2,923	$ —
Buildings and Improvements	132,464	22,730
Machinery and Equipment	14,320	9,627
Infrastructure	3,107	777
Total	$152,814	$33,134

Future minimum commitments under capital leases as of June 30, 2004, were as follows (expressed in thousands):

Year Ended June 30	Capital Leases: Governmental Activities	Capital Leases: Discretely Presented Component Units	Capital Leases: Total
2005	$ 28,359	$ 8,974	$ 37,333
2006	26,988	8,098	35,086
2007	25,132	7,254	32,386
2008	24,267	6,606	30,873
2009	23,773	4,636	28,409
2010-2014	104,986	37,175	142,161
2015-2019	110,434	5,112	115,546
2020-2024	102,887	3,227	106,114
2025-2029	43,310	30	43,340
2030-2034	5,547	7	5,554
Total Minimum Lease Payments	495,683	81,119	576,802
Less: Interest	(195,456)	(18,183)	(213,639)
Present Value of Future Minimum Lease Payments	$300,227	$62,936	$ 363,163

Other leases, principally for equipment, are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Operating lease expenditure/expense for the year ended June 30, 2004, was $29.3 million. Future minimum commitments under operating leases as of June 30, 2004, were as follows (expressed in thousands):

Year Ended June 30	Operating Leases: Governmental Activities	Operating Leases: Business-type Activities	Operating Leases: Discretely Presented Component Units	Operating Leases: Total
2005	$10,069	$2,702	$11,142	$ 23,913
2006	7,300	1,622	9,426	18,348
2007	5,072	824	4,338	10,234
2008	4,093	219	3,858	8,170
2009	3,171	151	3,597	6,919
2010-2014	9,769	90	10,699	20,558
2015-2019	3,885	—	9,904	13,789
2020-2024	1,677	—	9,875	11,552
2025-2029	227	—	9,875	10,102
2030-2034	—	—	4,487	4,487
Total Minimum Lease Payments	$45,263	$5,608	$77,201	$128,072

NOTE 12

RETIREMENT SYSTEMS

Plan Description

The West Virginia State Legislature has established six defined benefit plans (the Plans) and a defined contribution plan to provide retirement benefits for eligible employees. The Plans are a group of defined benefit public employee retirement systems. The Consolidated Public Retirement Board (CPRB) administers the Plans under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and ten members appointed by the Governor.

CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from the Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, WV 25305-0720. The Plans' financial statements are prepared using fund accounting principles and the accrual basis of accounting, under which expenses are recorded when liabilities are incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Investments are carried at fair value as determined by a third-party pricing service utilized by the respective investment management companies. Investment transactions are accounted for on a trade-date basis. Unrealized gains and losses are included in investment income. Investment income is determined monthly and distributed to each of the defined benefit plans participating in the investment pools on the last day of the month in the form of reinvested shares.

The net pension obligation at June 30, 2004, amounted to approximately $280 million, which is an increase of approximately $26 million from the prior year's obligation.

The Plans are comprised of the following groups of defined benefit plans which provide substantially all employees of the State, its public education system, and other political subdivisions of the State with retirement and death and disability benefits:

- The Public Employees' Retirement System (PERS) is a multiple-employer, cost-sharing, public employee retirement system. The number of local government employers participating in PERS at June 30, 2004, was 521, including 108 cities and towns, 358 special districts, and 55 counties.

- The Deputy Sheriff Retirement System (DSRS) is a multiple-employer, cost-sharing, public employee retirement system which was established for all deputy sheriffs hired on or after July 1, 1998. Current employees were eligible to transfer from PERS. The State makes no employer contributions to DSRS.

- The Teachers' Retirement System (TRS) is a multiple-employer, cost-sharing, public employee retirement system. Fifty-five county public school systems, certain personnel of the thirteen State-supported institutions of higher education, West Virginia Department of Education, and boards of higher education participate in the TRS plan. Because the State provides substantially all the funding for TRS, the State follows the GASB Statement No. 27 reporting requirements for sole employer plans.

- The Public Safety Death, Disability, and Retirement Fund (PSDDRF), the State Police Retirement System (SPRS), and the Judges' Retirement System (JRS) are single-employer, public employee retirement systems.

Current Year Actuarial Changes

Significant changes in assumptions included in the July 1, 2003, actuarial valuations are as follows:

The State Police Retirement System valuation incorporated an amendment to increase the duty-related death benefit from seven-tenths to nine-tenths of base salary.

Funding Policy

Funding policies for all the Plans have been established and changed from time to time by action of the State Legislature. Actuarial valuations are performed to assist the Legislature in determining appropriate contribution rates. As a condition of participation in the Plans, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by CPRB. The following schedule summarizes each defined benefit plan's required contribution rates at June 30, 2004:

Statutory Contribution Rates as a Percent of Covered Payroll

System	Member	Employer
PERS	4.5%	10.5%
TRS	6.0%	15.0% State 15.0% Counties 15.0% Other Employers
PSDDRF	9.0%	15.0%
SPRS	12.0%	12.0%
JRS	9.0%	Appropriated by the Legislature

The State Supreme Court has required the State to fund the Teachers' Retirement System in an actuarially sound manner to eliminate the unfunded liability over a forty-year period beginning on July 1, 1994, and to meet the cash flow requirements of the TRS in fulfilling its future anticipated obligations to its members. The State Supreme Court has further ordered the State, through the Governor, to require the appropriate funding should the State Legislature fail to do so. Since this ruling, the Legislature has supplemented the funding of the TRS to meet this requirement.

Pension Investments

Following is a summary of investment holdings by plan. Substantially all of the following investment pools are in excess of 5% of total investments for all plans as of June 30, 2004, (expressed in thousands):

	PERS	TRS	PSDDRF	SPRS	DSRS	JRS
Large Cap Equity	$ 735,349	$ 323,577	$ 23,157	$ 4,747	$14,284	$15,483
Non-Large Cap Equity	521,447	223,905	16,698	3,219	9,911	10,577
International Equity	625,694	270,017	20,198	3,630	11,594	13,146
Fixed Income	1,184,467	491,541	34,850	7,819	22,595	23,946
Short-Term Fixed Income	19,797	82,855	23,047	335	645	387
Total	$3,086,754	$1,391,895	$117,950	$19,750	$59,029	$63,539

The following investment managers have investments at fair value in excess of 5% of the net assets of the Teachers' Defined Contribution Retirement System as of June 30, 2004, (expressed in thousands):

Vanguard Money Market	$ 33,320
Franklin Income Fund	57,098
Washington Mutual Investors	48,090
Federated Max Cap S&P 500	44,700
VALIC	199,329
American Funds Bond Fund	37,822
American Fund Growth Fund A	79,090
Other (Less than 5%)	33,408
Total	$532,857

Annual Pension Cost, Funding and Net Pension Obligation

The State's contributions to PERS for the years ended June 30, 2004, 2003, and 2002 were $81,333,203, $72,308,995, and $68,091,773, respectively, equal to the required contributions for each year. The following table provides the annual pension cost and changes in net pension obligation for each defined benefit plan reported as a sole employer plan for the current year (expressed in thousands):

	TRS	PSDDRF	SPRS	JRS
Annual required contribution (ARC)	$333,208	$24,358	$ 1,343	$6,652
Interest on net pension obligation	14,623	4,604	(137)	63
Adjustment to ARC	(11,788)	(385)	154	(97)
Annual pension cost (APC)	$336,043	$28,577	$ 1,360	$6,618
Contributions made	$316,121	$23,932	$ 1,520	$5,329
Percentage of APC Contributed	94.07%	83.75%	111.76%	80.52%
Net pension obligation (asset), July 1, 2003	$194,969	$58,165	$(1,822)	$ 968
Increase (decrease) in net pension obligation (asset)	19,922	4,645	(160)	1,289
Net pension obligation (asset), June 30, 2004	$214,891	$62,810	$(1,982)	$2,257

Three-Year Trend Information

In accordance with GASB 27, the single-employer plans disclose the following (expressed in thousands):

	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
TRS				
	2004	$336,043	94.07%	$214,891
	2003	$299,307	91.61%	$194,969
	2002	$242,265	104.04%	$169,863
PSDDRF				
	2004	$ 28,577	83.75%	$ 62,810
	2003	$ 26,939	81.43%	$ 58,165
	2002	$ 19,238	103.15%	$ 51,449
SPRS				
	2004	$ 1,360	111.76%	$ (1,982)
	2003	$ 1,185	109.11%	$ (1,822)
	2002	$ 1,046	116.63%	N/A
JRS				
	2004	$ 6,618	80.52%	$ 2,257
	2003	$ 6,416	85.72%	$ 968
	2002	$ 5,309	113.02%	$ 52

Actuarial Methods and Assumptions

	TRS	PSDDRF	SPRS	JRS
Valuation date	July 1, 2003	July 1, 2003	July 1, 2003	July 1, 2003
Actuarial cost method	Entry age cost	Entry age cost	Entry age cost	Entry age cost
Asset valuation method	Fair value	Fair value	Fair value	Fair value
Amortization method	Constant percentage of payroll	Constant percentage of payroll	N/A	Constant dollar
Amortization period	Through FY 2034, closed	Through FY 2025, closed	Through FY 2030, closed	Through FY 2018, closed
Actuarial assumptions:				
Investment rate of return	7.50%	7.50%	7.50%	6.50%
Projected salary increases:				
Attributable to inflation	3.00%	3.00%	3.00%	3.00%
Attributable to merit	.5%-2.5%	2.0%-2.7%	2.0%-2.7%	2.00%
Postemployment benefit increases	None	3.75% Annual cost of living adjustment	1% Annual cost of living adjustment	5.0%

Defined Contribution Plans

The Teachers' Defined Contribution Retirement System (TDCRS)

TDCRS, administered by the Consolidated Public Retirement Board, is a multiple-employer defined contribution retirement system primarily covering the full-time employees of the State's 55 county public school systems, the State Department of Education, and the School for the Deaf and the Blind, who were hired after June 30, 1991. TDCRS members also include former TRS plan members, including higher education employees, who have elected to participate in the TDCRS. There are approximately 21,200 and 22,700 members in the TDCRS plan at June 30, 2004 and 2003, respectively. TDCRS retirement benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires employees to contribute 4.5% of their gross compensation and the employers contribute 7.5% of covered members' gross compensation from amounts allocated to the employers through the State School Aid Formula. Employer contributions for each employee (and interest allocated to the employee's account) become partially vested after six years and fully vested after twelve years of completed service. Employer

contributions and earnings thereon forfeited by employees who leave employment prior to becoming vested are available, in the event the employee does not return to active participant status within five years, to reduce the employer's current-period contribution requirement. Any such forfeitures arising from contributions plus earnings thereon, will be used to reduce future employee contributions.

The TDCRS financial statements are prepared using the accrual basis of accounting. The TDCRS provides members with their choice of several investment options which include government security mutual funds, common stock mutual funds, guaranteed insurance contract mutual funds and individually allocated annuities, or three lifestyle funds.

For the year ended June 30, 2004, the approximate payroll of State employees covered by TDCRS was $548 million and total covered payroll for both the TDCRS and TRS was approximately $1.4 billion. Both the employees and employers made the required contributions amounting to $24.7 million and $42.9 million, respectively, or 4.51% and 7.82% of covered payroll.

Teachers' Insurance and Annuity Association

The Teachers' Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA-CREF), a privately administered multiple employer defined contribution retirement plan, provides individual retirement fund contracts for each eligible participating employee. Eligible employees consist mainly of state college/university faculty and staff. For the year ended June 30, 2004, contributions were approximately $25.7 million from the covered employees and approximately $25.7 million from the thirteen participating institutions from the State of West Virginia.

Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total annual required contribution and the amount paid is 6% of the employee's annual salary and is established by the Board of Trustees of the University System of West Virginia and the Board of Directors of the State College System. The State has no further liability once annual contributions are made.

NOTE 13

OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 12, the State provides certain health care insurance benefits, in accordance with State statutes, for retired employees. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for the State. The State provides health care credits against monthly health insurance premiums of certain retirees based on various factors, including unused sick leave (see Note 1, "Compensated Absences") at the time of retirement. It is the State's practice to record a liability for expected conversion of sick leave to health care premiums in accordance with GASB Statement No. 16, "Accounting for Compensated Absences."

According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their heath care coverage. Employees hired between June 30, 1988, and July 1, 2001, can receive health care credits against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit.

An actuarial study on the conversion of sick leave was conducted as of June 30, 2004. The study reflected a discount rate used to calculate the net present value of the cash flows generated from the retiree conversions of 6.2%. The obligation associated with retiree health care benefits is funded on a pay-as-you-go basis. Expenditures recognized for the fiscal year ended June 30, 2004, related to retiree premium sick leave conversion, were approximately $7 million for approximately 2,300 eligible retirees.

In addition to the pension benefits allowing certain retirees to convert sick leave to health care premiums, State statutes provide that employees who retire may continue participation in the State's health insurance plan subject to certain length of service and participation requirements. Such employees are eligible to participate in the public employees' insurance program by making the premium contribution specified by the PEIA Finance Board. Approximately 30,500 retirees meet those eligibility requirements at June 30, 2004. The retirees currently pay approximately 38% of validated health care claims for retirees and their dependents. The balance of the cost is funded by the State through a retiree subsidy, which is included in the make-up of the premium charged for the coverage of each active employee. These postretirement benefits are accounted for and funded on a pay-as-you-go basis. Accordingly, the liability related to providing such benefits is not accrued for in the accompanying financial statements. During the year ended June 30, 2004, expenditures/ expenses for such benefits approximated $89 million net of participant contributions.

NOTE 14

RISK MANAGEMENT

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia operates three significant insurance enterprise funds: Board of Risk and Insurance Management (BRIM), Public Employees' Insurance Agency (PEIA), and Workers' Compensation Fund (WCF).

Description of the Funds

Board of Risk and Insurance Management

BRIM provides a property and liability insurance program for its member agencies. BRIM has general supervision and control over the insurance of all State property, including that of the institutions of higher education and the discretely presented component units. Types of coverage provided by BRIM have been expanded over time to include medical malpractice, automobile liability and coal mine subsidence reinsurance. At the end of the fiscal year, 1,388 organizations participated in the BRIM risk pool.

Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains a $1 million per occurrence coverage maximum on all third-party liability claims. In the normal course of business, BRIM seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable operating results by reinsuring levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Excess coverage under this program is limited to $200 million per event, subject to limits on certain property. Reinsurance permits recovery of a portion of losses from reinsurers; however, it does not discharge the primary liability of BRIM as direct insurer of the risks insured. BRIM does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. There have been no significant reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

In December 2001, the West Virginia Legislature passed House Bill 601 which authorized BRIM to provide medical malpractice and general liability coverage to private health care providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies not renewing insurance policies for health care providers on a national level, and in the State. BRIM's coverage is provided to health

care providers in the State only if the providers attest that they have been unable to obtain coverage in the commercial market. The premiums quoted by BRIM must be at least as high as any insurer with at least 5% of the market in the State on file with the West Virginia Insurance Commissioner's Office. If there is no insurer with at least 5% of the market, then BRIM's rates are not subject to this provision. As of June 30, 2004, there are approximately 1,473 physicians, 1 clinic, and no hospitals participating in this program. On July 1, 2004, all physicians novated to the newly formed West Virginia Physicians' Mutual Insurance Company (WVPMIC). BRIM still maintains the hospital and facilities in the House Bill 601 Program that did not novate to the Mutual. However, all policies have been terminated as of June 30, 2004, and the program is in run-off mode only for existing claims and for any claims that may be submitted on any tail policies that were purchased.

Pursuant to the West Virginia Physicians' Mutual Insurance Company Act, the Legislature authorized the loan of $24 million from the West Virginia Tobacco Medical Trust Fund solely for the company's use as initial capital and surplus. A receivable for the $24 million is recorded in the general fund. There is a low interest rate on the loan computed of simple interest of 1.425%, which began accruing on January 1, 2005. The principal amount shall be paid on or before July 31, 2034. However, no payment of accrued interest and/or repayment of principal shall be due, payable, or paid by the WVPMIC, in whole or in part unless certain stability criteria are met.

The Insurance Commission is providing specific insurance taxes as repayment to the Tobacco Trust Fund until such time as the WVPMIC is able to repay the loan. A due to the Tobacco Trust Fund of $21 million is reflected in the general fund and a due from other funds in the same amount is recorded in the Tobacco Trust Fund for the balance due at June 30, 2004, at the governmental fund level.

In March 2004, the West Virginia Legislature passed House Bill 4740 creating a Patient Injury Compensation Fund. The purpose of this fund is to provide fair and reasonable compensation to claimants in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of previously enacted tort reforms. This fund will provide relief to claimants whose damages were limited because of caps for trauma care or as a result of joint and several liability. BRIM will operate and administer this fund. The capitalization of the fund will come from the State's tobacco settlement fund, with the first capitalization payment to be made during fiscal year 2005. This fund will be included in BRIM's financial statements in fiscal year 2005 and accounted for as a restricted fund.

Public Employees' Insurance Agency

This agency provides a program of health, life, and prescription insurance for its member agencies. PEIA provides coverage for all participating State employees, including those of the institutions of higher education and the discretely presented component units. In addition, the political subdivisions in the State and certain other charitable and public service organizations may request to be covered by PEIA. PEIA's general objectives are to provide a basic employee benefit insurance program which includes hospital, surgical, major medical, prescription drug, and basic life and accidental death for all participating employers and employees. Underwriting and rate setting policies are established by PEIA. The cost of all coverage, as determined by PEIA, shall be paid by the participants. Coverage under these programs is limited to $1 million lifetime for health and $500,000 of life insurance coverage. Premiums are established by PEIA at varying rates dependent upon, among other things, coverage required, number of dependents, State vs. non-State employees and active employee vs. retired employee. PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has transferred the risks for health and prescription coverage for those individuals covered by the Managed Care Organization (MCO) Plan to the plan providers. The risks of the life insurance coverage have been transferred to a third-party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 219,000 individuals, including participants and dependents.

Workers' Compensation Fund

The Workers' Compensation Commission (WCC) is an agency of the State. West Virginia is one of five states operating an exclusive State-managed workers' compensation insurance fund (WCF), which means that private insurance companies cannot offer coverage to employers. In accordance with the Workers' Compensation Law, generally, every employer who has a payroll must have coverage except for employers in the agriculture industry with five or fewer employees, volunteer organizations, domestic workers and employers qualifying for territorial coverage. WCF's general objective is to provide a system of compensation for injury sustained in the course of, and growing out of, employment.

The Workers' Compensation Board of Managers (the Board of Managers) oversees the workers' compensation system. Among the responsibilities of the Board of Managers, as related to WCC, are: recommending legislation and establishing regulations designed to ensure the effective administration and financial viability of WCC; approving premium

rates; analyzing opportunities for internal operational improvements; establishing and monitoring performance measurements; making recommendations to the Governor and the Legislature related to the second-injury fund, and establishing vocational standards to be utilized in the decisions on permanent total disability awards; and considering such other matters related to WCC as any member of the Board of Managers desires.

During the years ended June 30, 2001 and 2002, certain negative claims payment trends developed. These trends continued into fiscal 2003. As a result, a special session was held in June 2003. During that session, the West Virginia Legislature enacted "Senate Bill 2013" and several companion pieces of legislation. Senate Bill 2013 made major changes to the workers' compensation laws that became effective in fiscal year 2004:

- Removal of additional cost-of-living increases for fatal and permanent total disability benefits
- Discontinuation of any new permanent total disability and fatal benefits after age 70
- Increase in the threshold for new permanent total disability claims filed from 40% to 50%
- Elimination of the rule of liberality in claims adjudication
- Reduction of maximum permanent partial disability benefits from 100% to 70% of the state average weekly wage

<u>Employer Rate Changes in Senate Bill 2013:</u>

- A one-time increase in employer premium base rates beginning July 1, 2003 (The employer base rate increase for any class is capped at a maximum of 15% and once set will remain unchanged for a three-year period.)
- Elimination of second injury coverage for employers
- Implementation of the employer violator rules that give the Commission the power to:
    - Revoke business licenses of defaulted companies
    - Collect premiums from related companies that share common ownership with defaulted companies

The WCF is continuing to undergo additional changes to improve its structure and processes. These changes include the development of new systems that management believes will provide for improved revenue collection and claims management.

State management believes that the formation of an employers' mutual insurance company, to replace the WCF, is in the best interest of the public and economic development in the State. Accordingly, the new administration, under the leadership of Governor Joe Manchin III, called a special session of the Legislature and passed Senate Bill 1004, in January 2005, creating the means to transition the WCF into a mutual insurance company.

The executive director of WCF and the Insurance Commissioner are instructed to develop a financial plan to meet the criteria outlined in the West Virginia Code §23-2C-11 by December 31, 2006. Senate Bill 1004 also allows for a maximum of $1.5 billion in revenue bonds to be issued by the Economic Development Authority for the initial funding of the mutual. The new legislation creates annual state taxes to be collected to pay for the bonds. The general credit of the State will not be pledged for repayment of such bonds issued under the current provisions of the bill.

Unpaid Claims Liabilities

The three insurance funds establish claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not result in an exact amount. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The House Bill 601 program for health care providers began at BRIM in December 2001. Medical malpractice claims have a long payout period and claims may not be known for several years. The exposures written under this program have not yet developed sufficient experience to be evaluated based on their own merit. Accordingly, the actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in BRIM's financial statements.

Information concerning the changes in those aggregate liabilities for the past two fiscal years is shown in the following table (expressed in thousands):

	BRIM		PEIA		WCF	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Unpaid claims and claims adjustment expense liability, beginning of year	$184,287	$161,199	$ 60,955	$ 62,392	$4,203,300	$3,720,166
Incurred claims and claims adjustment expense:						
Provision for insured events of the current fiscal year	93,682	83,065	431,397	393,862	353,350	411,011
Change in discount rate from 6.5% to 5%	—	—	—	—	—	450,550
Increase (decrease) in provision for insured events of prior fiscal years	(7,560)	(5,834)	(4,730)	(4,550)	(35,600)	132,806
Amortization of discount	—	—	—	—	196,173	221,450
Total incurred claims and claims adjustment expense	86,122	77,231	426,667	389,312	513,923	1,215,817
Payments:						
Claims and claims adjustment expense attributable to insured events of the current fiscal year	13,799	11,746	379,101	343,939	70,956	87,069
Claims and claims adjustment expense attributable to insured events of the prior fiscal year	37,282	42,397	46,831	46,810	566,567	636,514
Total payments	51,081	54,143	425,932	390,749	637,523	723,583
Change in provision for Disabled Workers' Relief Fund receivable	—	—	—	—	4,000	(9,100)
Total unpaid claims and claims adjustment expense liability, end of year	$219,328	$184,287	$ 61,690	$ 60,955	$4,083,700	$4,203,300

Neither BRIM nor PEIA discount their estimated claims liability. At June 30, 2004, the total undiscounted claims liability for WCF approximated $6.6 billion. Invested assets of WCF are not sufficient at current investment rates to retire the claims liability and WCF has a significant deficit. GASB standards provide that, if discounting is used, the pool should use a rate that is determined by giving consideration to such factors as the pool's expected settlement rate for those liabilities and its expected investment yield rate. WCC management's decision to implement a more conservative investment policy, beginning with the June 30, 2003 fiscal year, impacted WCF's expected investment yield. Based on the expected investment yields on WCF's investment portfolio, the estimated liability for unpaid claims and claim adjustment expenses (claims liability) has been discounted using

a rate of 5%. If discounting of the WCF claims liability was limited to anticipated investment income, the claims liability would have increased by approximately $2.4 billion to a claims liability of approximately $6.4 billion, and the total deficit would have increased to approximately $5.3 billion at June 30, 2004.

WCC management believes the discounted liability for unpaid claims and claims adjustment expenses is adequate. However, due to the inherent variability of the assumptions used to estimate this liability, actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in the WCC's financial statements.

Fund Deficits

Billed premiums and investment earnings have not been sufficient to cover costs of coverage provided by WCF and BRIM. Because of this situation, the funds have the following deficits at June 30, 2004, (expressed in thousands):

Insurance Fund	Fund Deficit
Workers' Compensation Commission	$2,965,069
Board of Risk and Insurance Management	27,386
Total	$2,992,455

Deficit Funding Plans

Workers' Compensation

Due to a history of recurring losses and a significant accumulated deficit, WCF over the past eight years has implemented numerous initiatives, including significant legislative reform for collection of premiums and awarding of claims, premium rate increases, and numerous administrative and operational improvements. Despite WCF's efforts, the deficit has increased significantly over the last several years. The passage and implementation of Senate Bill 2013 is expected to result in significant improvements in the operations of the WCF. The WCC is systematically implementing the provisions of Senate Bill 2013. The combination of the initial implementation phases of Senate Bill 2013, Legislative appropriations, and a renewed focus on improving processes has resulted in a significant reduction in the net cash outflows subsequent to year-end. WCF expects to continue to improve its business processes well into the future so that the WCF will function more efficiently and effectively and reduce the deficit.

WCC management expects improvement in operations that will result in a reduction of the deficit in future periods. However, WCF is doubtful that it can improve operations to the extent necessary to fully fund the deficit. Although WCF believes it has sufficient resources to independently operate for several years, it may become necessary to seek alternative funding sources if the business climate in West Virginia prohibits raising premiums to a level adequate to fund the deficit.

Board of Risk and Insurance Management

BRIM's deficiency was largely caused by adverse claim development in the general liability and medical malpractice lines of business. BRIM's continued existence is dependent on its ability to realize future premium increases and collections, State appropriations at least commensurate with the increase being experienced in claims development, and to attain satisfactory levels of future cash flows from operations. In response to this situation, BRIM has developed a financial stability plan that conforms with statutory requirements and includes the following:

- Beginning in fiscal years 2004 and 2005, the SB3 and State agency premiums, respectively, will be calculated using the nominal value of projected losses. In prior years, the present value of project losses was used in the premium calculation and assumed an interest rate (currently 5%). Historically, BRIM has not consistently earned interest at this assumed percentage.

- BRIM has contracted with an independent auditing firm to perform random audits on exposure data reported by insureds. This should enable BRIM to determine the accuracy of the exposure data being reported, which impacts underwriting and premium revenue.

- BRIM will continue to charge the SB3 line of business a nominal unfunded liability surcharge. Beginning in fiscal year 2004, BRIM began assessing State agencies a similar surcharge.

- Consistent with prior years, BRIM will request annual appropriations from the Legislature to reduce the deficiency of net assets.

- BRIM is evaluating the loss control process and is implementing changes to increase the impact of loss control efforts specifically in the areas of general liability and medical malpractice. Independent action plans for BRIM's loss leaders are being developed with specific goals and objectives for reducing their losses.

BRIM's management believes they will have sufficient liquid resources to meet obligations as they become due through June 30, 2005. However, the accompanying financial statements do not reflect any adjustments that might result from the outcome of this uncertainty should such plan fail to be successful.

Required Supplementary Information

Each of the three risk pools has issued separate, audited financial reports on its operations. Those reports include the required supplementary information concerning the reconciliation of claims liabilities by type of contract and ten-year claim development information.

Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

Board of Risk and Insurance Management
90 MacCorkle Avenue, S.W.
Suite 203
South Charleston, West Virginia 25303

Public Employees' Insurance Agency
Building 5, Room 1001
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305

Workers' Compensation Commission
4700 MacCorkle Avenue, S.E.
Charleston, West Virginia 25304

NOTE 15

COMMITMENTS AND CONTINGENCIES

Environmental Protection Claims

The State maintains several environmental protection programs including a bonding program for coal operators for mine reclamation, an underground storage tank insurance fund, an abandoned oil and gas well bonding program, and a Landfill Closure Assistance Program (LCAP). Under such programs, the State charges various fees, premiums, other assessments, and sets bonding amounts that operators are required to maintain to ensure that funds are available in the event that the operator is unable to fulfill its environmental protection responsibilities. The bonding programs for operators of coal mines and oil and gas wells are maintained as primary insurance programs for substantially all such operators. The LCAP program was established to provide assistance with closure costs to the landfill owners who do not have the financial viability to meet closure regulations.

The insurance fund for the operators of the underground storage tanks has discontinued accepting new operators into the fund and is processing claims only. In a lawsuit filed against the fund, the court ordered the State to distribute 75% of the fund balance on a pro rata basis, according to the amounts approved by the Underground Storage Tank Advisory Committee and the Department of Environmental Protection (DEP). The remaining 25% of the fund, as well as any subsequent interest, and any other amounts that may come into the account, are to be reserved for disputed amounts. DEP is authorized to use up to $5,000 of this reserve to pay for the services of an experienced insurance adjuster for the resolution of disputed amounts. The fund balance is insufficient to pay the balance of the amounts approved by the Underground Storage Tank Advisory Committee. In order to fulfill all claims by the end of fiscal year 2005, an additional $1.4 million was allocated from other DEP funds. The court also found that $15 million was a reasonable amount to cover anticipated future demands against the insurance fund, to be appropriated as the Legislature may deem fit, but the court may not order the Legislature to make an appropriation. As of June 30, 2004, $5 million of this amount has been recorded as a liability in the accompanying financial statements.

Based upon the State's estimate of the liability for incurred losses under the programs, the bonding amounts and funding structures established by the State have proven inadequate to fund the actual costs of environmental protection that the State has incurred in acceptance of the related insurance risk. As a result, the State has been required at various times to increase fees and bonding rates, as well as make administrative changes in its permitting regulations governing the industries and businesses benefiting from the State's maintenance of such environmental protection programs.

To date, the revenues generated, including the forfeited bonds, have been less than the State's estimate of its undiscounted claims liability for such programs, including the estimated cost of claims that have been incurred but not settled and claims that are considered probable. Management obtained further information and legal interpretation that has led it to conclude that an obligation of the State to conduct the necessary reclamation efforts required under these programs exists, even if funds are not available for such programs, and that accounting principles generally accepted in the United States require recognition of such obligation in the State's financial statements.

Accordingly, management has estimated the total cost of these reclamation efforts to approximate $244 million at June 30, 2004. Because it is not practical to ascertain when such costs will be funded, no consideration has been given to discounting the obligation. At June 30, 2004, approximately $42 million is available to pay current reclamation costs. Because it is not expected that the remaining estimated reclamation costs will be liquidated by expendable available financial resources, a $202 million obligation is reported as a noncurrent liability in the governmental activities on the statement of net assets. The nature of this liability requires the use of estimates and assumptions by management. Actual results could differ materially from management's estimates in the near term.

As part of the noncurrent liability, the State currently records a liability for Class I oil and gas wells which represent an immediate threat to the environment. Class II oil and gas wells, which represent a nonimmediate threat to the environment, are mandated to be plugged if resources become available. The plugging of Class III oil and gas wells may be deferred indefinitely. Due to financial resources not being available in the past, or any foreseen availability in the future, the probability of available resources ever being used to plug Class II or III wells is remote. In previous years, approximately 6,000 wells from a pre-1929 study were included in the oil and gas liability of Class I wells. In 2004, management obtained additional information and challenged the classification of pre-1929 wells as Class I. Accordingly, they determined that the remaining pre-1929 wells should no longer be classified as Class I and that all wells which presented an immediate environmental threat by any means of detection, in the 75 years that permits have been required, have been moved to the actual inventory of post-1929 wells and will be plugged as soon as funds are available. This change in estimate reduced the expenses for Environmental Protection on the government-wide statement of activities in 2004 by $141 million. The State has also made a distinction between orphaned and abandoned wells, since all wells that are abandoned may not be a liability to the State.

The State also currently accrues for active water treatment sites under the special reclamation liability. The State's estimated liability for these water treatment sites assumes a 15-year treatment period until the sites are properly reclaimed. The actual length of water treatment and the actual ultimate liability could differ significantly from this estimate.

In September 2001, the Legislature increased the tax on clean mined coal from three cents to fourteen cents per ton, to be reduced to seven cents per ton after no more than 39 months. However, the tax can only be reduced if the Special Reclamation Fund has sufficient funds to meet the State's reclamation responsibilities. In addition, the bonds required of operators have been increased. The Special Reclamation Fund plans to make expenditures for reclamation, including water treatment systems as funding becomes available. The Legislature further established a Special Reclamation Fund Advisory Council (the Council). The Council's role is to develop a financial plan that ensures long-term stability of the special reclamation program. The Legislature further requires actuarial studies of the fund's fiscal soundness every four years, with the first study to be completed by December 2004.

In addition, the State, through the Solid Waste Management Board (the Board), operated one landfill that was closed in 1993. The Board made an application through the Department of Environmental Protection for closure assistance from the LCAP. The Board's application was accepted by the LCAP and since then the LCAP has paid the landfill closure costs. The Board continues to pay for certain postclosure monitoring costs, estimated to be $324,000 over the next 27 years, which are recorded as a postclosure care liability of the Board in the financial statements of the State's proprietary discretely presented component units. The remaining liabilities for postclosure assistance under the LCAP are estimated at $1.3 million. These estimates are subject to change in the near term resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

Other Contingencies

In addition to the $202 million in environmental protection claims, the State has recorded an obligation in the amount of $100 million for the payment of other contingencies. Such other contingencies include, but are not limited to, claims assessed against the State for property damage and personal injury, alleged torts, alleged breaches of contract, and other alleged violations of state and federal laws and regulations. These claims are based on

management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Certain other claims may be covered by the State's insurance carrier under its general liability or medical malpractice coverage.

In an action brought by the United States of America versus the State, the United States prevailed on its claim that the State owed $11.9 million to the federal government, attributable to overcharges made to various agencies for the employees' share of retirement contributions made by the U.S. Government on behalf of federally funded State employees. At issue is accrued interest which has been assessed by the U.S. Department of Health and Human Services (DHHS) on the principal amount. The interest assessment was set aside but DHHS has filed a motion for reconsideration. Exposure is hard to quantify at this time. The State intends to vigorously contest the case; however, the potential exposure for the interest assessment should the State be unsuccessful is estimated by management to be in the range of $20 million to $40 million. As of June 30, 2004, a $32 million liability related to this matter has been accrued.

Public Employees' Insurance Agency (PEIA) is the defendant in a dispute with its former prescription benefit manager (PBM), which essentially maintains that PEIA owes it approximately $3 million based upon a shared savings provision in the contract. PEIA is also the plaintiff in a dispute with its former PBM maintaining the PBM did not live up to their contract and owes PEIA damages in an unspecified amount. The ultimate outcome of this matter cannot be determined at the present time. In the opinion of management, after consultation with legal counsel, resolution of this matter is not expected to have a material adverse effect on net assets.

There are several cases against the Board of Public Works and the State Tax Department involving tax years 1998 through 2004. Collectively these cases could cost the State up to approximately $23 million. These matters are being vigorously defended but recovery by the claimants is possible.

WCF has an unsecured contingent liability for self-insurers who have not defaulted as of June 30, 2004, approximately $73 million discounted at 5%. It is not possible to estimate the likelihood of future self-insurer defaults; therefore, there has been no provision for future self-insurer defaults in the estimated liabilities for unpaid claims and claims adjustment expenses.

It is not possible to predict with certainty the ultimate outcome of all lawsuits or claims pending or threatened against the State, including those discussed above, some of which may involve potentially significant amounts. Based on the current status of all legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's overall financial position. However, depending on the amount and timing of the resolution, some or all of these matters could materially affect the State's results of operations or cash flows for a particular period.

Federal Grants

The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and other federal awards. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for allowable purposes. The State provides for estimates of any material disallowance arising in connection with the operation of these federally funded programs as such amounts become reasonably estimable and probable of settlement with available expendable financial resources. Federal awards are subject to financial and compliance audits under either the federal Single Audit Act or by grantor agencies of the federal government or their designees. Any obligations that may arise from cost disallowance or sanctions as a result of those audits are not expected to be material to the financial statements of the State or its component units.

Arbitrage Rebates

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates which are applicable to portions of the primary government and most of the discretely presented component units. Arbitrage rebate liabilities have been recorded in the financial statements under accrued and other liabilities and the respective agencies have reserved sufficient amounts for their future payment.

Construction and Other Commitments
(Expressed in Thousands)

	Amount Committed	Commitment
Governmental Funds:		
Transportation	$512,623	Construction
School Building Authority	241,429	Acquisition, construction and maintenance grants to county school boards
West Virginia Infrastructure and Jobs Development Council	32,510	Funding of water and economic development projects
Enterprise Funds:		
Water Pollution	48,466	Committed for loans
Drinking Water Treatment Fund	17,206	Lending consistent with Safe Drinking Water Act
Discretely Presented Component Units:		
Economic Development Authority	37,500	Committed for loans
Parkway, Economic Development, and Tourism Authority	22,000	Turnpike improvements
Regional Jail Authority	14,159	Construction
Higher Education	25,400	Construction

West Virginia University has signed an agreement providing for the purchase of steam for a remaining period of 27 years. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. The total payments for steam purchased under the agreement were approximately $9.1 million in 2004. Payments in future years will be dependent on actual operating costs and other cost indices in those years.

The West Virginia Providing Real Opportunities for Maximizing In-State Student Excellence (PROMISE) scholarship program provides scholarships to students within the West Virginia secondary education system who meet the scholarship requirements. The basic scholarship requirements include maintaining a 3.0 grade average and enrolling in a college or university in West Virginia. The program will pay for tuition and fees and had $1.6 million at June 30, 2004, to fund the program obligations. Subsequent to year end, the program received $30 million from the Lottery.

NOTE 16

SUBSEQUENT EVENTS

On July 1, 2004, the School Building Authority issued $141,600,000 of Lottery Capital Improvement Revenue Bonds, which will mature through July 2014 bearing interest at 2.00% to 5.25%, to provide funds to make grants to finance capital improvements to public schools located in the State of West Virginia.

Subsequent to June 30, 2004, the West Virginia Water Pollution Control Revolving Fund had applied for additional funding from the EPA under the Clean Water Act in the amount of $20,659,518 and the respective matching funds from the State of West Virginia of $4,141,821. As of the date of this report, the award notification had not been received.

On July 1, 2004, and August 2, 2004, the Housing Development Fund (the Fund) redeemed various Housing Finance Bonds in advance of the scheduled maturities at a par amount of $9,545,000 and $6,430,000, respectively. On July 13, 2004, the Board of Directors approved a plan of finance authorizing the sale of up to $75,000,000 Housing Finance Bonds to provide funds for single-family borrowers. The Fund expects to redeem various Housing Finance Bonds in advance of the scheduled maturities at a par amount of $4,025,000 on September 1, 2004.

On July 8, 2004, Jobs Investment Trust (the Trust) issued the West Virginia Jobs Investment Trust Board Zero-coupon Promissory Notes (New Millennium Fund), Series 2004A and 2004B, in the combined maturity amount of $6,000,000, with an initial principal amount of $3,054,660. The notes mature on July 8, 2014, with interest accrued at 6.95% for the Series 2004A note and 6.70% for the Series 2004B note. In connection therewith, the Trust obtained irrevocable commitments to purchase from the Trust, upon the Trust's demand, nonincentive tax credits totaling $6,000,000.

During August 2004, the West Virginia Higher Education Policy Commission issued $167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). The 2004B Bonds are being issued to provide funds to (i) provide capital improvements at institutions of higher education located throughout the State, (ii) advance refund a portion of the 1996 University Bonds, hereinafter defined, and (iii) pay the costs associated with the issuance of the 2004B Bonds.

On September 28, 2004, the Board of Governors of West Virginia University Board approved a resolution authorizing the issuance of West Virginia University revenue bonds in the amount of approximately $225 million. The bonds will include tax-exempt insured fixed rate bonds and taxable insured variable rate weekly auction rate certificates, with a level debt service. The purpose of the bonds is to finance various authorized projects to construct, renovate, and upgrade academic and auxiliary facilities on the University campuses, to refund outstanding 1997 Series A and B revenue bonds and related expenses, and to finance the costs associated with the bond issuance.

In September 2004, the Shepherd University issued University Facilities Revenue Notes Series 2004A and Infrastructure Revenue Bonds Series 2004B amounting to $3,405,000 and $1,865,000, respectively. The proceeds of the notes and bonds will be used to finance residence hall renovations and certain infrastructure projects. In April 2004, the Board of Governors of Shepherd University passed a resolution expressing its approval in concept of the issuance of tax-exempt revenue bonds in one or more series in a aggregate principal amount not to exceed $25,000,000 to finance all or a portion of the costs of planning, design, acquisition, construction and equipping of a new student housing project and associated parking lots, new west campus roadways and utilities infrastructure, renovations of existing residence halls, and other capital improvements for use by the University.

NOTE 17

RESTATEMENT OF 2004 FINANCIAL STATEMENTS

The West Virginia Economic Development Authority (EDA) issued $249,895,000 in Excess Lottery Revenue Bonds (the Bonds) on January 28, 2004 to provide funds "*to finance a portion of the costs of constructing, equipping, improving or maintaining economic development projects, capital improvement projects and infrastructure projects which promote economic development in the State…*" The Bonds are secured by and payable from a portion of the net profits of the West Virginia Lottery. The Bonds were previously disclosed only as conduit debt of the EDA. Accordingly, the debt obligation, related assets, and other activity were not previously reported in the State's June 30, 2004, basic financial statements. However, after further review, management of the State has determined that the Bonds are revenue bonds of the State of West Virginia as there is no obligated third party external to the State. The Bonds were issued under an Executive Order from the Governor's Office to provide funding for grants to businesses to promote economic development in the State. Accordingly, the State's 2004 CAFR, including basic financial statements, have been restated to reflect the impact of recording the revenue bonds payable and related activity as described in the following paragraphs.

As a result of recording these revenue bonds and the accompanying bond proceeds and expenses, the State's governmental activities net assets reflected in the Government-wide Statement of Net Assets have been reduced by $35 million. This reduction results from an increase in cash and cash equivalents of $210 million, representing unspent bond proceeds, an $11,000 increase in receivables for accrued interest, an increase of $3.4 million in other assets related to the unamortized debt issuance costs, and an increase of $248 million in revenue bonds payable, net of the $1.4 million discount. Restricted net assets for Debt Service increased $38 million, Specific Fund Purposes restricted net assets increased $172 million reflecting the unspent grant proceeds, and the unrestricted net asset deficit increased by $245 million. The Government-wide Statement of Activities expenses of the Commerce function increased by $35 million primarily related to the recording of the grant activity, which resulted in a corresponding reduction of net assets.

Government-wide Financial Statements - Governmental Activities

Statement of Net Assets June 30, 2004	As Previously Reported	Adjustment	Restated
Cash and cash Equivalents	1,065,161	210,243	1,275,404
Receivables, Net	770,975	11	770,986
Other Assets	2,855	3,370	6,225
Revenue Bonds Payable	35,138	13,890	49,028
Revenue Bonds Payable (Long-Term)	387,154	234,607	621,761
Debt Service	88,516	38,009	126,525
Specific Fund Purposes	297,880	172,245	470,125
Unrestricted (Deficit)	(422,054)	(245,127)	(667,181)
Total Net Assets	6,643,225	(34,843)	6,608,382
Statement of Activities **Fiscal Year Ended June 30, 2004**			
Commerce Expenses	224,142	34,929	259,071
Unrestricted Investment Earnings	15,697	56	15,753
Change in Net Assets	480,748	(34,873)	445,875

On the Governmental Funds Balance Sheet, the total assets have increased $172 million. This increase resulted from the cash and cash equivalents increase by $172 million in the general fund and the increase of $38 million in the debt service funds, which are presented in the other governmental funds column. (The Combining Balance Sheet Nonmajor Debt Service Funds on pages 158-160 has been updated to show the Economic Development Project Fund as a separate column.) The receivables line item increased by $1,000 in the general fund and $10,000 in the debt service funds for accrued interest. The reserved fund balance increased $38 million in the debt service funds and $172 million in the specific fund purposes, for a total increase in reserved fund balance of $210 million.

The total revenues on the Statement of Revenues, Expenditures, and Changes in Fund Balances, increased due to the investment earnings increasing $23,000 in the general fund and $33,000 in the debt service funds. The Expenditures under Commerce in the general fund increased $38 million related primarily to debt issuance costs and grant disbursements. The excess of revenues under expenditures increased by $38 million in the general fund and $33,000 in the debt service funds. The other financing sources in the general fund increased by $248 million due to the bond proceeds, the discount on the bonds, and transfers. The other financing sources in the debt service funds increased by $38 million due to the bond proceeds of $19 million and transfers in. The fund balance of the general fund increased by $172 million and the debt service funds increased by $38 million.

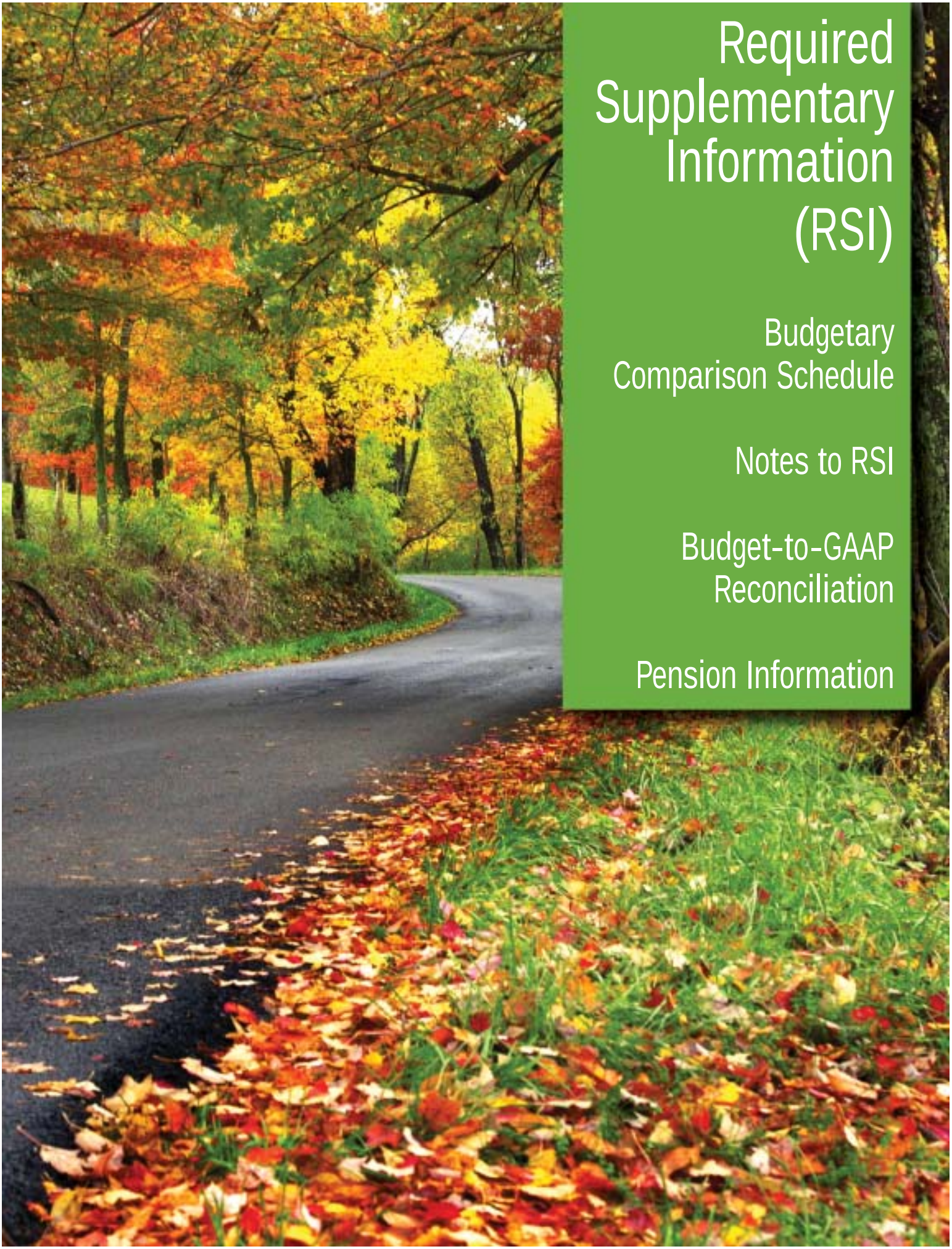
Governmental Funds Financial Statements

Balance Sheet **June 30, 2004**	**As Previously Reported**	**Adjustment**	**Restated**
General Fund			
Cash and cash Equivalents	436,547	172,244	608,791
Receivables, Net	368,099	1	368,100
Total Assets	1,321,308	172,245	1,493,553
Fund Balances:			
Reserved for			
Specific Fund Purposes	135,119	172,245	307,364
Total Fund Balance	651,588	172,245	823,833
Other Governmental Funds (Debt Service Funds)			
Cash and cash Equivalents	341,213	37,999	379,212
Receivables, Net	19,385	10	19,395
Total Assets	600,307	38,009	638,316
Fund Balances:			
Reserved for			
Debt Service	93,778	38,009	131,787
Total Fund Balance	521,516	38,009	559,525

Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Year Ended June 30, 2004

General Fund			
Investment Earnings	5,884	23	5,907
Total Revenues	6,138,756	23	6,138,779
Expenditures: Commerce	225,041	38,299	263,340
Total Expenditures	6,356,578	38,299	6,394,877
Excess of Revenues Over			
(Under) Expenditures	(217,822)	(38,276)	(256,098)
Face Value of Long-Term			
Debt Issued	—	230,905	230,905
Discounts on Bonds Issued	—	(1,398)	(1,398)
Transfers Out	(127,216)	(18,986)	(146,202)
Net Change in Fund Balance	22,475	172,245	194,720
Fund Balance, Ending	651,588	172,245	823,833
Other Governmental Funds (Debt Service Funds)			
Investment Earnings	30,931	33	30,964
Total Revenues	306,131	33	306,164
Excess of Revenues Over			
(Under) Expenditures	(140,977)	33	(140,944)
Face Value of Long-Term			
Debt Issued	—	18,990	18,990
Transfers In	155,614	18,986	174,600
Net Change in Fund Balance	(13,076)	38,009	24,933
Fund Balance, Ending	521,516	38,009	559,525

Certain related amounts in the notes accompanying the basic financial statements have also been updated to reflect the information related to the Bonds. The Note 2 Reserved Fund Balance table was updated to include the Economic Development Project Fund reserved for debt service in the amount of $38 million. In Note 4 the Primary Government investments were updated to reflect the cash equivalents from the bond proceeds not yet spent. The U.S. Government and Agency Obligations changed from $918 million to $938 million in the reported value column and $917 million to $937 million in the fair value column. The Guaranteed Investment Contract line item changed from $558 million to $749 million. Note 7, Interfund Transfers, has been updated to reflect the transfers of $18.9 million from the general fund to the Economic Development Project Fund for debt service. Note 10, Long-Term Obligations, has been updated to reflect the details of the revenue bonds issued, including the maturity dates, rates of interest, and the schedule of principal and interest due. Furthermore, the Management's Discussion and Analysis and Statistical Section expenditures and revenues in Tables 1, 2, and 4 have also been updated to reflect the Bonds activity.



Required Supplementary Information (RSI)

Budgetary Comparison Schedule

Notes to RSI

Budget-to-GAAP Reconciliation

Pension Information

Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	General Revenue Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes:				
Personal Income	$1,090,600	$1,090,600	$1,068,212	$ (22,388)
Consumer Sales	937,200	937,200	927,992	(9,208)
Severance	149,800	149,800	184,354	34,554
Corporate Income/Business Franchise	167,500	167,500	181,515	14,015
Business and Occupation	170,500	170,500	177,395	6,895
Gasoline and Motor Carrier	—	—	—	—
Wholesale Motor Fuel	—	—	—	—
Automobile Privilege	—	—	—	—
Other	314,200	314,200	334,607	20,407
Excess Lottery Transfer	126,800	126,800	129,978	3,178
Jobs/Growth Transfer	28,075	28,075	28,075	—
Intergovernmental	—	—	—	—
Licenses, Permits, and Fees	13,400	13,400	12,014	(1,386)
Departmental Collections	13,000	13,000	18,466	5,466
Investment Earnings	15,000	15,000	7,001	(7,999)
Other	15,300	15,300	13,332	(1,968)
Industrial Access Road Transfer	—	—	—	—
Total Revenues	3,041,375	3,041,375	3,082,941	41,566
Expenditures:				
Legislature	33,887	33,887	25,875	8,012
Judicial	74,126	74,126	67,027	7,099
Executive	42,405	42,412	33,806	8,606
Administration	53,826	53,614	51,243	2,371
Commerce	52,009	52,910	40,855	12,055
Environmental Protection	8,655	8,656	8,402	254
Employment Programs	—	—	—	—
Education	1,932,454	1,907,014	1,897,339	9,675
Health and Human Resources	578,817	610,964	559,213	51,751
Military Affairs and Public Safety	228,040	228,046	213,702	14,344
Tax and Revenue	21,093	21,097	19,964	1,133
Transportation	7,764	7,764	5,242	2,522
Senior Services	880	881	853	28
Miscellaneous Boards and Commissions	—	—	—	—
Total Expenditures	3,033,956	3,041,371	2,923,521	117,850
Excess (Deficiency) of Revenues Over (Under) Expenditures Current Year	7,419	4	159,420	159,416
Expenditures from Prior Year Appropriations	196,112	196,112	88,759	107,353
Total Excess (Deficiency) of Revenues Over (Under) Expenditures	(188,693)	(196,108)	70,661	266,769
Budgetary Fund Balance, Beginning of Year, as Adjusted	196,119	196,119	196,119	—
Budgetary Fund Balance, End of Year	$ 7,426	$ 11	$ 266,780	$266,769

Federal Revenue				State Road			
Original Budget	Final Budget	Actual	Variance With Final Budget	Original Budget	Final Budget	Actual	Variance With Final Budget
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	227,900	262,000	272,398	10,398
—	—	—	—	72,500	37,100	36,920	(180)
—	—	—	—	170,763	175,476	180,196	4,720
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
2,712,566	3,243,786	2,722,431	(521,355)	472,963	481,900	354,087	(127,813)
—	—	—	—	83,600	83,600	84,724	1,124
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	5,400	6,300	5,726	(574)
—	—	—	—	(3,000)	(3,000)	(2,948)	52
2,712,566	3,243,786	2,722,431	(521,355)	1,030,126	1,043,376	931,103	(112,273)
1,201	1,201	749	452	—	—	—	—
—	—	—	—	—	—	—	—
62,336	124,329	93,630	30,699	—	—	—	—
33,848	33,848	29,037	4,811	—	—	—	—
104,951	105,553	68,252	37,301	—	—	—	—
98,015	98,015	82,716	15,299	—	—	—	—
4,258	4,258	2,740	1,518	—	—	—	—
409,723	445,223	320,061	125,162	—	—	—	—
2,137,562	2,279,077	2,006,647	272,430	—	—	—	—
83,914	138,517	83,688	54,829	—	—	—	—
25	25	11	14	—	—	—	—
24,015	28,222	14,511	13,711	1,015,648	1,050,898	912,301	138,597
14,249	14,249	12,466	1,783	—	—	—	—
1,786	1,993	1,576	417	—	—	—	—
2,975,883	3,274,510	2,716,084	558,426	1,015,648	1,050,898	912,301	138,597
(263,317)	(30,724)	6,347	37,071	14,478	(7,522)	18,802	26,324
—	—	—	—	—	—	—	—
(263,317)	(30,724)	6,347	37,071	14,478	(7,522)	18,802	26,324
35,383	35,383	35,383	—	92,159	92,159	92,159	—
$ (227,934)	$ 4,659	$ 41,730	$ 37,071	$ 106,637	$ 84,637	$110,961	$ 26,324

(Continued)

Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)
(Continued)

	Special Revenue			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes:				
Personal Income	$ —	$ —	$ —	$ —
Consumer Sales	—	—	—	—
Severance	—	—	—	—
Corporate Income/Business Franchise	—	—	—	—
Business and Occupation	—	—	—	—
Gasoline and Motor Carrier	—	—	—	—
Wholesale Motor Fuel	—	—	—	—
Automobile Privilege	—	—	—	—
Other	—	—	—	—
Excess Lottery Transfer	—	—	—	—
Jobs/Growth Transfer				
Intergovernmental	—	—	—	—
Licenses, Permits, and Fees	—	—	—	—
Departmental Collections	1,757,983	1,190,948	1,211,969	21,021
Investment Earnings	—	—	—	—
Other	—	—	—	—
Industrial Access Road Transfer	—	—	—	—
Total Revenues	1,757,983	1,190,948	1,211,969	21,021
Expenditures:				
Legislature	3,666	2,763	1,605	1,158
Judicial	—	—	—	—
Executive	19,822	21,844	16,934	4,910
Administration	59,135	70,135	58,863	11,272
Commerce	109,426	109,450	93,320	16,130
Environmental Protection	50,567	51,718	35,461	16,257
Employment Programs	71,377	74,077	46,124	27,953
Education	201,385	209,161	139,605	69,556
Health and Human Resources	334,312	339,375	295,948	43,427
Military Affairs and Public Safety	21,550	22,776	18,269	4,507
Tax and Revenue	157,402	157,427	147,128	10,299
Transportation	6,057	6,358	5,394	964
Senior Services	38,271	38,271	36,568	1,703
Miscellaneous Boards and Commissions	20,141	21,476	18,237	3,239
Total Expenditures	1,093,111	1,124,831	913,456	211,375
Excess (Deficiency) of Revenues Over (Under) Expenditures Current Year	664,872	66,117	298,513	232,396
Expenditures from Prior Year Appropriations	178,278	178,278	107,743	70,535
Total Excess (Deficiency) of Revenues Over (Under) Expenditures	486,594	(112,161)	190,770	302,931
Budgetary Fund Balance, Beginning of Year, as Adjusted	657,799	657,799	657,799	—
Budgetary Fund Balance, End of Year	$1,144,393	$ 545,638	$ 848,569	$302,931

REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
Budgetary Reporting

The State's annual budget is prepared on a cash basis, modified only at year-end to allow for a 31-day period for the payment of vendor invoices for goods and services previously encumbered. Appropriations expire or lapse at the end of this period.

Budgetary Process

Appropriation requests for the upcoming fiscal year are submitted to the State Budget Office (Budget) by September 1. Budget conducts budget hearings and reviews revenue estimates for recommendation and preparation of the proposed budget. The Governor presents the proposed budget to the State Legislature in January. Included in that budget proposal is the Governor's official revenue estimate for the upcoming fiscal year. To maintain a balanced budget, the Legislature can appropriate expenditures only to the level of the Governor's official revenue estimate and prior year fund balance.

The Legislature also holds budget hearings, considers the effect of other proposed legislation, and gathers other information during its 60-day session which occurs January through March of each calendar year. During the last days of the legislative session, the Legislature passes the budget and the Governor approves, vetoes, or allows the budget to become law without signing.

In the event that there is a shortfall of General Revenue Fund collections during the year, the Governor may impose a spending reduction. In 1994, the Legislature created a Revenue Shortfall Reserve Fund (Rainy Day Fund) designed to prevent a spending reduction. By law, the first 50 percent of the General Revenue Fund surplus for a fiscal year is set aside in a reserve or Rainy Day Fund not to exceed five percent of the total appropriations from General Revenue for that year. This fund may be used to offset a shortfall of revenues which would otherwise require the Governor to impose expenditure reductions.

Throughout the year, in the event of a budget surplus, supplemental appropriation requests may be made on a special session basis to the Legislature. Appropriations from General Revenue were increased approximately $49.7 million for surplus appropriation. Appropriated Special Revenue and Federal Funds were increased by total supplemental appropriations of $367 million. During the budget process, the Legislature may also decide to reappropriate certain unexpended budgetary activities for expenditure in the next year. Accounts reappropriated generally relate to special activities or projects that may require several years to complete.

After the budget is legally enacted, certain appropriations from General Revenue may be altered or transferred within each Cabinet Secretariat. The transfers may not exceed more than five percent of the funds appropriated to any one agency or board, and are altered at the budgetary activity level. Other specific transfers are allowed in all the budgetary funds from the object classes of personal services and unclassified budget object classes to employee benefits or from personal services and employee benefits to other budget object classes and are not limited to Secretariat authority.

The budget laws provide for the ability of the Governor to increase the appropriations of the budgetary Appropriated Special Revenue Funds and the Federal Funds when the Legislature is not in session. Detailed spending plans, identification of new revenue sources, and justifications are required for review and approval.

Budgetary Control

The State Legislature annually appropriates those general government activities determined to be important to controlling the financial operations of the State. The Legislature appropriates expenditures for those defined budgetary activities, often further defined by the object classes of personal services, employee benefits, equipment repairs and alterations, or unclassified.

The State's accounting system controls expenditures for appropriated accounts at the budgetary activity level on a predefined quarterly basis. The State Auditor exercises control over spending at the budgetary activity level on an annual appropriation basis.

Budget further monitors the rate and nature of spending for all budgetary accounts by requiring the organization responsible for the budgeted activities to submit annual spending plans reflecting further details on their expected quarterly spending patterns and the types of expenditures for the budgeted accounts. From these spending plans, Budget monitors and limits expenditures within predefined quarterly allotments. Expenditures during a quarter may not exceed the amount of the approved allotment, unless the Governor approves the expenditure of a larger amount. Any amounts remaining unexpended at the close of a quarter are available for reallocation and expenditure during any succeeding quarter of the same fiscal year.

Budget also utilizes encumbrance accounting to control purchase orders and other commitments. Under the budgetary process, unexpended appropriations and encumbrances expire at the end of the 31-day period following each fiscal year-end. All unpaid invoices and claims after that date must be submitted by the vendor to the State Court of Claims, unless the related activity has been reappropriated by the Legislature.

Budgetary Funds

The State uses four budgetary fund groups to summarize accounts or activities which have been legally appropriated. The budgetary fund groups are described as follows:

> General Revenue Fund – consists primarily of the major tax revenues of the State such as Consumer Sales Tax, Personal Income Tax, Business and Occupation Tax, Corporate Net Income Tax, and Severance Tax. The General Revenue Fund supports the operation of certain primary government activities and certain other agencies.
>
> Federal Fund – consists of any financial awards made to any State agency by the U.S. Government, whether a loan, grant, subsidy, augmentation, reimbursement or any other form of such awards, including state funds used for federal matching purposes.
>
> Road Fund – consists of revenues from gasoline and other motor fuel excise and license taxes, motor vehicle registration and license fees and all other revenue derived from motor vehicles or motor fuel. The Road Fund is appropriated by the Legislature and used solely for construction, repair, and maintenance of public highways and also for the payment of interest and principal on all road bonds.
>
> Appropriated Special Revenue Fund – consists of individual accounts created for special purposes. These accounts generate revenue derived from established rates or fees. The spending within these accounts is limited to the amount collected or the amount appropriated by the Legislature, whichever is less.

The State has other special revenue accounts which are not appropriated. These accounts are special accounts which derive revenues from special fees or charges, or exist for internal agency purposes such as payroll clearing accounts, cost allocations, etc., but are not subject to specific legislative appropriation. Accordingly, these accounts have not been reported in the State's budgetary comparison schedule.

2004 Budgetary Reporting

The State's budgetary General Revenue Fund surplus for the year ended June 30, 2004, is calculated as follows (expressed in thousands):

Preliminary General Revenue Fund current year excess of revenues over expenditures as reflected on Budgetary Comparison Schedule	$159,420
Less accounts reappropriated for spending in FY 2005	(95,966)
Accumulated surplus	63,454
Less amount to be transferred to Revenue Shortfall Reserve Fund	(31,727)
General Revenue Fund FY 2004 surplus available for appropriation in FY 2005	$ 31,727

In August 2004 after the close of the fiscal year, $31,727,000 from the State's General Revenue Fund surplus for the year was transferred to the Reserve Fund, which represents the statutory requirement to transfer 50% of the budgetary surplus at the end of the fiscal year.

The State's budgetary General Revenue Fund and Appropriated Special Revenue Fund balances at July 1, 2003, have been restated as follows (expressed in thousands):

General Revenue Fund:	
Beginning Fund Balance	$165,984
Prior Year Refunds	182
Transfer from Expired Funds	39,777
Less Transfer to Rainy Day Fund	(9,824)
Adjusted Beginning Fund Balance	$196,119
Appropriated Special Revenue Fund:	
Beginning Fund Balance	$657,287
Adjustment to Include Other Appropriated Special Revenue	512
Adjusted Beginning Fund Balance	$657,799

Budgetary Reporting and GAAP

Because the budgetary basis differs from accounting principles generally accepted in the United States, budget and actual amounts in the accompanying Budgetary Comparison Schedule are presented on the budgetary basis. A more detailed budgetary basis report, Supplementary Information to the State of West Virginia Comprehensive Annual Financial Report, is produced for internal purposes to demonstrate budgetary compliance and is available at the Financial Accounting and Reporting Section for public inspection. A reconciliation that compares the excess of revenues over expenditures on a budgetary basis for the year ended June 30, 2004, to the excess of revenues and other financing sources over expenditures and other financing uses presented in conformity with accounting principles generally accepted in the United States is set forth in the following schedule.

Required Supplementary Information
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation (Restated)
Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	General Revenue Fund	Federal Fund	Road Fund	Appropriated Special Revenue Fund
SOURCES/INFLOWS OF RESOURCES				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 3,082,941	$ 2,722,431	$931,103	$ 1,211,969
Differences - Budget to GAAP:				
Intrafund transactions not included in GAAP revenues	(2,988,559)	—	—	—
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(365,737)	—	(4,917)	—
Other Basis of Accounting Difference	28,533	—	24,848	—
Reclassifications:				
Prior year General Revenue Refunds	182	—	—	—
Special Revenue and Other Funds expired into the budgetary General Revenue Fund	39,777	—	—	—
Nonappropriated Budgetary Fund's revenue included as revenue/transfers in the GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	3,197,614	—	24,978	—
Budgetary special revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	521,906	—	5,658	(1,211,969)
Budgetary federal funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	2,622,122	(2,722,431)	14,278	—
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	$ 6,138,779	$ —	$995,948	$ —
USES/OUTFLOWS OF RESOURCES				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 3,012,280	$ 2,716,084	$912,301	$ 1,021,199
Differences - Budget to GAAP:				
Intrafund transactions not included in GAAP expenditures	(2,988,559)	—	—	—
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(127,216)	—	—	—
Other Basis of Accounting Difference	212,698	—	17,158	—
Reclassifications:				
Nonappropriated Budgetary Fund's expenditures/transfers out included as expense in the GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	3,175,902	—	24,200	—
Budgetary general revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	—	—	4,780	—
Budgetary special revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	496,461	—	5,395	(1,021,199)
Budgetary federal funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	2,613,311	(2,716,084)	14,511	—
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	$ 6,394,877	$ —	$978,345	$ —

Required Supplementary Information
Pension Plans
Schedule of Funding Progress

(Expressed in Thousands)

	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Excess of Assets Over) Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (Excess) as a Percentage of Covered Payroll
TRS							
	2003	$1,190,882	$6,243,834	$5,052,952	19.1%	$832,919	606.7%
	2002	$1,098,441	$5,709,001	$4,610,560	19.2%	$841,627	547.8%
	2001	$1,090,663	$5,188,826	$4,098,163	21.0%	$867,018	472.7%
PSDDRF							
	2003	$ 99,407	$ 447,869	$ 348,462	22.2%	$ 13,496	2,582.0%
	2002	$ 91,095	$ 416,938	$ 325,843	21.9%	$ 14,314	2,276.4%
	2001	$ 89,229	$ 388,909	$ 299,680	22.9%	$ 15,611	1,919.7%
SPRS							
	2003	$ 14,753	$ 16,892	$ 2,139	87.3%	$ 11,449	18.7%
	2002	$ 11,644	$ 13,708	$ 2,064	84.9%	$ 10,134	20.4%
	2001	$ 9,825	$ 10,819	$ 994	91.0%	$ 10,175	9.8%
JRS							
	2003	$ 52,779	$ 96,709	$ 43,930	54.6%	$ 6,325	694.5%
	2002	$ 47,620	$ 92,215	$ 44,595	51.6%	$ 6,325	705.1%
	2001	$ 46,635	$ 84,791	$ 38,156	55.0%	$ 6,325	603.3%

REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
Pension Plans-Schedule of Funding Progress

The information presented in the required supplementary schedules was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	PERS	TRS	PSDDRF	SPRS	DSRS	JRS
Valuation date	July 1, 2003	July 1, 2003	July 1, 2003	July 1, 2003	July 1, 2003	July 1, 2003
Actuarial cost method	Entry age cost	Entry age cost	Entry age cost	Entry age cost	Entry age cost	Entry age cost
Asset valuation method	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
Amortization method	Constant dollar	Constant percentage of payroll	Constant percentage of payroll	N/A	Constant percentage of payroll	Constant dollar
Amortization period	Through FY 2029*	Through FY 2034	Through FY 2025	Through FY 2030	Through FY 2038*	Through FY 2018
Actuarial assumptions:						
Investment rate of return	7.50%	7.50%	7.50%	7.50%	7.50%	6.50%
Projected salary increases:						
Attributable to inflation	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Attributable to merit	1.5%-3.0%	.5%-2.5%	2.0%-2.7%	2.0%-2.7%	3.0%	2.00%
Postemployment benefit increases	None	None	3.75% Annual cost of living adjustment	1% Annual cost of living adjustment	None	None

*Contribution rates are not sufficient to meet original amortization funding target.

Current Year Actuarial Changes

Significant changes in assumptions included in the July 1, 2003, actuarial valuations are as follows:

The State Police Retirement System valuation incorporated an amendment to increase the duty-related death benefit from seven-tenths to nine-tenths of base salary.

Note 12 has additional pension information. CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, WV 25305-0720.

STATE OF WEST VIRGINIA
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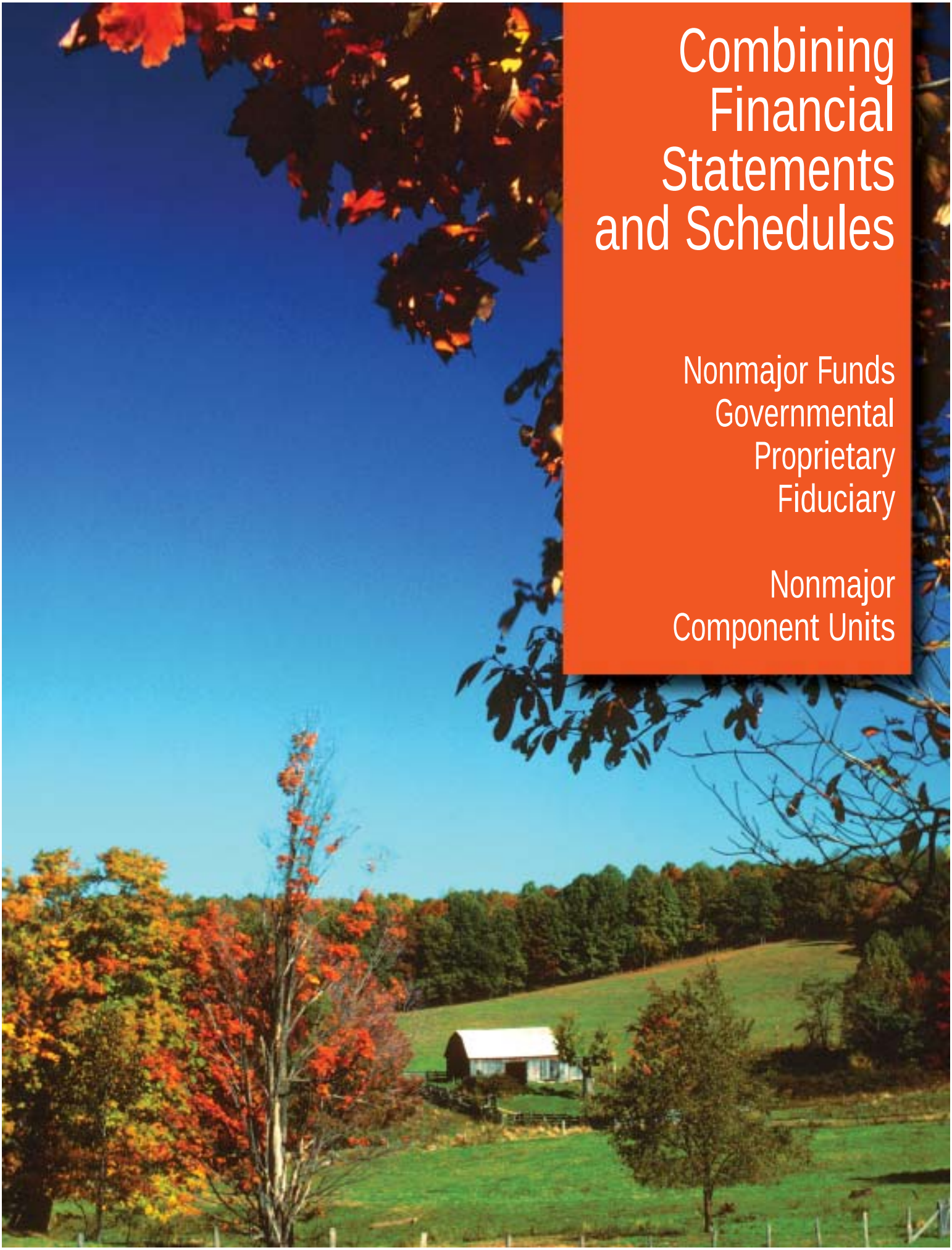

Combining Financial Statements and Schedules

Nonmajor Funds
Governmental
Proprietary
Fiduciary

Nonmajor
Component Units

GOVERNMENTAL FUND TYPES - NONMAJOR

Special Revenue:

Special Revenue Funds are used to account for the receipt and use of specific revenues that are legally restricted to expenditures for specified purposes.

Debt Service:

Debt Service Funds are used to account for the accumulation of resources and payment of general long-term debt principal and interest from governmental resources.

Capital Projects:

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. These funds consist of the following:

State Road This constitutionally established Fund is operated within the Department of Transportation. Certain taxes, fees, and other revenue sources are expended for the construction and maintenance of roads.

School Building Authority The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

Education, Arts, Sciences, and Tourism Fund The Fund is established to provide public financial support for constructing, equipping, improving, and maintaining capital improvement projects which promote education, arts, sciences, and tourism in the State.

Lease Purchase Account This account is established to ensure that revenues and expenditures for the acquisition of capital assets through lease-purchase agreements are properly recorded.

Permanent Funds:

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific government programs, for the benefit of the government or its citizenry.

The Irreducible School Fund The Fund, which was constitutionally established, is required to maintain a minimum level of investments. All earnings from these investments are transferred to the General Fund for educational expenditures.

West Virginia Tobacco Settlement Medical Trust Fund The Fund, established in the West Virginia State Code 4-11A-2, receives fifty percent of the State's tobacco settlement receipts as a participant in the national master tobacco settlement agreement. The settlement moneys received are placed in investments and may not be expended for any purpose. The earnings received on these investments may be expended upon appropriation of the Legislature for support of the Public Employees' Insurance Agency, expansion of the State's Medicaid program, or funding of the State's owned or operated health facilities.

Combining Balance Sheet (Restated)
Nonmajor Governmental Funds
June 30, 2004
(Expressed in Thousands)

			Capital Projects	
	Special Revenue	Debt Service	State Road	School Building Authority
Assets:				
Cash and Cash Equivalents	$122,046	$108,806	$15	$113,010
Investments	30,170	21,444	—	—
Receivables, Net	2,948	537	—	—
Due from Other Governments	2,587	—	—	—
Due from Other Funds	946	1,000	—	—
Inventories	108	—	—	—
Total Assets	$158,805	$131,787	$15	$113,010
Liabilities:				
Accounts Payable	$ 6,508	$ —	$ —	$ 6,988
Accrued and Other Liabilities	45,039		—	13
Deferred Revenue	—	—	—	—
Due to Other Governments	2,921	—	—	—
Due to Other Funds	836	—	—	—
Due to Component Units	344	—	—	—
Total Liabilities	55,648	—	—	7,001
Fund Balances:				
Reserved for:				
Inventories	108	—	—	—
Capital Projects	—	—	15	106,009
Debt Service	—	131,787	—	—
Program Administration	5,764	—	—	—
Permanent Funds	—	—	—	—
Unreserved	97,285	—	—	—
Total Fund Balances	103,157	131,787	15	106,009
Total Liabilities and Fund Balances	$158,805	$131,787	$15	$113,010

Capital Projects		Permanent Funds		
Education, Arts, Sciences, and Tourism Fund	Lease Purchase Account	Irreducible School	Tobacco Settlement Medical Trust Fund	Total
$86	$33,865	$1,384	$ —	$379,212
—	—	—	161,823	213,437
—	3	1	15,906	19,395
—	—	—	—	2,587
—	—	—	21,631	23,577
—	—	—	—	108
$86	$33,868	$1,385	$199,360	$638,316
$ —	$ 3,133	$ —	$ —	$ 16,629
—	—	—	—	45,052
—	—	—	13,009	13,009
—	—	—	—	2,921
—	—	—	—	836
—	—	—	—	344
—	3,133	—	13,009	78,791
—	—	—	—	108
86	30,735	—	—	136,845
—	—	—	—	131,787
—	—	—	—	5,764
—	—	1,385	186,351	187,736
—	—	—	—	97,285
86	30,735	1,385	186,351	559,525
$86	$33,868	$1,385	$199,360	$638,316

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Restated)
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

			Capital Projects	
	Special Revenue	Debt Service	State Road	School Building Authority
Revenues:				
Taxes:				
Other	$ 4,000	$ —	$ —	$ —
Intergovernmental	124,209	—	29,830	3,928
Licenses, Permits, and Fees	80,671	—	—	—
Charges for Services	355	—	—	—
Investment Earnings	4,674	2,215	698	4,475
Other	4,004	—	—	—
Total Revenues	217,913	2,215	30,528	8,403
Expenditures:				
Legislature	2,611	—	—	—
Executive	33	—	—	—
Environmental Protection	113,103	—	—	—
Employment Programs	40,172	—	—	—
Education	994	—	—	—
Military Affairs and Public Safety	3,823	—	—	—
Tax and Revenue	3,991	—	—	—
Miscellaneous Boards and Commissions	31,885	—	—	—
Capital Outlay	—	—	61,943	60,865
Debt Service:				
Principal	—	42,710	—	—
Interest	—	47,434	—	—
Total Expenditures	196,612	90,144	61,943	60,865
Excess (Deficiency) of Revenues Over (Under) Expenditures	21,301	(87,929)	(31,415)	(52,462)
Other Financing Sources (Uses):				
Face Value of Long-Term Debt Issued	—	18,990	—	—
Capital Lease Acquisition	—	—	—	—
Transfers In	9,960	112,335	—	50,923
Transfers Out	(31,754)	(7,681)	—	—
Total Other Financing Sources (Uses)	(21,794)	123,644	—	50,923
Net Change in Fund Balances	(493)	35,715	(31,415)	(1,539)
Fund Balances, Beginning of Year	103,650	96,072	31,430	107,548
Fund Balances, End of Year	$103,157	$ 131,787	$ 15	$106,009

Capital Projects		Permanent Funds		
Education, Arts, Sciences, and Tourism Fund	Lease Purchase Account	Irreducible School	Tobacco Settlement Medical Trust Fund	Total
$ —	$ —	$ —	$ —	$ 4,000
—	—	—	—	157,967
—	—	—	—	80,671
—	—	2	—	357
—	467	12	18,423	30,964
—	—	369	27,832	32,205
—	467	383	46,255	306,164
—	—	—	—	2,611
—	—	—	—	33
—	—	—	—	113,103
—	—	—	—	40,172
—	—	—	—	994
—	—	—	—	3,823
—	—	—	—	3,991
—	—	—	—	31,885
15	37,529	—	—	160,352
—	—	—	—	42,710
—	—	—	—	47,434
15	37,529	—	—	447,108
(15)	(37,062)	383	46,255	(140,944)
—	—	—	—	18,990
—	13,274	—	—	13,274
—	1,382	—	—	174,600
—	(747)	(805)	—	(40,987)
—	13,909	(805)	—	165,877
(15)	(23,153)	(422)	46,255	24,933
101	53,888	1,807	140,096	534,592
$ 86	$ 30,735	$1,385	$186,351	$ 559,525

SPECIAL REVENUE FUNDS

Nonmajor Funds

Environmental Protection The Fund consists of various programs intended to maintain and improve the environmental quality of the State and its natural resources. Included in this Fund are programs addressing the following: Underground Storage Tanks, Groundwater, Solid Waste Environmental Response and Enforcement, Special Reclamation, Mines and Minerals, Dam Safety, Hazardous Waste Emergency Response, Oil and Gas Reclamation, Oil and Gas Operating Permit and Processing, as well as other miscellaneous programs.

School Building Authority The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

Public Service Commission The Commission is responsible for appraising and balancing the interests of current and future utility service customers, the State's economy, and the utilities subject to its jurisdiction. It is directed to identify, explore and consider the potential benefits and risks associated with emerging and state-of-the-art concepts in utility management, rate design and conservation.

Crime Victims' Compensation The intent of the Fund is to provide partial relief to the innocent victims of crime, including claimant's attorneys and witnesses, for the failure of the State to fully provide for the safety of its citizens and the inviolability of their property. To fund this program, individuals convicted of any felony or misdemeanor, excluding non-moving traffic violations, must pay an additional amount over and above ordinary court costs.

Insurance Commission Examiners The Fund is responsible for examining the financial condition and business methods of domestic, foreign, and alien insurers to ascertain whether they have complied with all laws and regulations of the State. Additionally, the Fund is authorized to promulgate and adopt such rules and regulations relating to insurance as are deemed necessary to protect and safeguard the interests of policyholders and the public.

Armory Board The Board is responsible for providing the facilities for the activities of the State's National Guard.

Bureau of Employment Programs The Bureau includes the Employment Service Division (ES) and the administrative activities of the Unemployment Compensation Division (UC). The ES operates local offices throughout the State to serve those seeking and providing employment. The UC provides temporary income as partial compensation to unemployed workers from moneys collected under provisions of the Federal Unemployment Tax Act.

Wildlife Resources Fund The Fund is responsible for recognizing the inestimable importance of conserving the wildlife resources of West Virginia. In addition, the fund provides the opportunity for citizens and residents of the State to invest in the future of its wildlife resources. The Fund is financed from the proceeds of the sale of lifetime hunting and fishing licenses, as well as proceeds from gifts, grants, and contributions. The interest and principal of this fund shall be used only for the purpose of supporting wildlife conservation programs of the State.

Children's Fund The Fund is for the sole purpose of awarding grants, loans, and loan guaranties for child abuse and neglect prevention activities.

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2004
(Expressed in Thousands)

	Environmental Protection	School Building Authority	Public Service Commission
Assets:			
Cash and Cash Equivalents	$ 96,396	$194	$10,160
Investments	—	—	—
Receivables, Net	1,841	—	—
Due from Other Governments	2,587	—	—
Due from Other Funds	332	—	40
Inventories	—	—	—
Total Assets	$101,156	$194	$10,200
Liabilities:			
Accounts Payable	$ 5,321	$ 17	$ 577
Accrued and Other Liabilities	42,869	—	286
Due to Other Governments	39	—	2,882
Due to Other Funds	475	4	83
Due to Component Units	30	—	—
Total Liabilities	48,734	21	3,828
Fund Balances:			
Reserved for:			
Inventories	—	—	—
Program Administration	—	—	—
Unreserved (Deficit)	52,422	173	6,372
Total Fund Balances	52,422	173	6,372
Total Liabilities and Fund Balances	$101,156	$194	$10,200

Crime Victims' Compensation	Insurance Commission Examiners	Armory Board	Bureau of Employment Programs	Wildlife Resources	Children's Fund	Total
$6,232	$2,702	$2,356	$2,941	$ 1	$1,064	$122,046
—	—	—	—	30,170	—	30,170
—	—	2	556	548	1	2,948
—	—	—	—	—	—	2,587
—	1	1	572	—	—	946
—	—	—	108	—	—	108
$6,232	$2,703	$2,359	$4,177	$30,719	$1,065	$158,805
$ 3	$ 148	$ 108	$ 324	$ —	$ 10	$ 6,508
2	2	21	1,859	—	—	45,039
—	—	—	—	—	—	2,921
—	9	105	160	—	—	836
—	—	6	308	—	—	344
5	159	240	2,651	—	10	55,648
—	—	—	108	—	—	108
—	—	—	5,764	—	—	5,764
6,227	2,544	2,119	(4,346)	30,719	1,055	97,285
6,227	2,544	2,119	1,526	30,719	1,055	103,157
$6,232	$2,703	$2,359	$4,177	$30,719	$1,065	$158,805

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Environmental Protection	School Building Authority	Public Service Commission
Revenues:			
Taxes:			
Other	$ 4,000	$ —	$ —
Intergovernmental	84,754	—	1,498
Licenses, Permits, and Fees	46,955	—	27,798
Charges for Services	335	—	19
Investment Earnings and Losses	773	—	—
Other	3,940	—	—
Total Revenues	140,757	—	29,315
Expenditures:			
Legislature	—	—	—
Executive	—	—	—
Environmental Protection	113,103	—	—
Employment Programs	—	—	—
Education	—	994	—
Military Affairs and Public Safety	—	—	—
Tax and Revenue	—	—	—
Miscellaneous Boards and Commissions	—	—	31,885
Total Expenditures	113,103	994	31,885
Excess (Deficiency) of Revenues Over (Under) Expenditures	27,654	(994)	(2,570)
Other Financing Sources (Uses):			
Transfers In	217	1,027	3,547
Transfers Out	(30,372)	—	(1,364)
Total Other Financing Sources (Uses)	(30,155)	1,027	2,183
Net Change in Fund Balances	(2,501)	33	(387)
Fund Balances, Beginning of Year	54,923	140	6,759
Fund Balances, End of Year	$ 52,422	$ 173	$ 6,372

Crime Victims' Compensation	Insurance Commission Examiners	Armory Board	Bureau of Employment Programs	Wildlife Resources	Children's Fund	Total
$ —	$ —	$ —	$ —	$ —	$ —	$ 4,000
749	—	—	37,208	—	—	124,209
1,806	1,611	—	—	2,501	—	80,671
—	—	1	—	—	—	355
4	—	21	—	3,866	10	4,674
—	—	—	—	4	60	4,004
2,559	1,611	22	37,208	6,371	70	217,913
2,611	—	—	—	—	—	2,611
—	—	—	—	—	33	33
—	—	—	—	—	—	113,103
—	—	—	40,172	—	—	40,172
—	—	—	—	—	—	994
—	—	3,823	—	—	—	3,823
—	3,991	—	—	—	—	3,991
—	—	—	—	—	—	31,885
2,611	3,991	3,823	40,172	—	33	196,612
(52)	(2,380)	(3,801)	(2,964)	6,371	37	21,301
—	—	3,500	1,669	—	—	9,960
(2)	(2)	(14)	—	—	—	(31,754)
(2)	(2)	3,486	1,669	—	—	(21,794)
(54)	(2,382)	(315)	(1,295)	6,371	37	(493)
6,281	4,926	2,434	2,821	24,348	1,018	103,650
$6,227	$ 2,544	$ 2,119	$ 1,526	$30,719	$1,055	$103,157

DEBT SERVICE FUNDS

Nonmajor Funds

School Building Authority The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

West Virginia Infrastructure and Jobs Development Council The Council coordinates the review and funding of water, wastewater, and economic development projects in the State.

Education, Arts, Sciences, and Tourism Fund The Fund is established to provide public financial support for constructing, equipping, improving, and maintaining capital improvement projects which promote education, arts, sciences, and tourism in the State.

Lease Purchase Account This account is established to ensure that revenues and expenditures for the acquisition of capital assets through lease-purchase agreements are properly recorded.

Economic Development Project Fund The fund is established to provide funds to finance a portion of the costs of construction, equipping, improving or maintaining economic development projects, capital improvement projects and infrastructure projects which promote economic development in the State.

Combining Balance Sheet (Restated)
Nonmajor Debt Service Funds
June 30, 2004
(Expressed in Thousands)

	School Building Authority	West Virginia Infrastructure and Jobs Development Council	Education, Arts, Sciences, and Tourism Fund	Lease Purchase Account	Economic Development Project Fund	Total
Assets:						
Cash and Cash Equivalents	$38,481	$62	$23,756	$8,508	$37,999	$108,806
Investments	21,444	—	—	—	—	21,444
Receivables, Net	522	—	4	1	10	537
Due from Other Funds	—	—	1,000	—	—	1,000
Total Assets	$60,447	$62	$24,760	$8,509	$38,009	$131,787
Fund Balances:						
Reserved for Debt Service	$60,447	$62	$24,760	$8,509	$38,009	$131,787
Total Liabilities and Fund Balances	$60,447	$62	$24,760	$8,509	$38,009	$131,787

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Restated)
Nonmajor Debt Service Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	School Building Authority	West Virginia Infrastructure and Jobs Development Council	Education, Arts, Sciences, and Tourism Fund	Lease Purchase Account	Economic Development Project Fund	Total
Revenues:						
Investment Earnings	$ 1,860	$ 82	$ 198	$ 42	$ 33	$ 2,215
Expenditures:						
Debt Service:						
Principal	24,490	4,545	6,690	6,985	—	42,710
Interest	15,498	15,103	3,140	13,693	—	47,434
Total Expenditures	39,988	19,648	9,830	20,678	—	90,144
Excess (Deficiency) of Revenues Over (Under) Expenditures	(38,128)	(19,566)	(9,632)	(20,636)	33	(87,929)
Other Financing Sources (Uses):						
Face Value of Long-Term Debt Issued	—	—	—	—	18,990	18,990
Transfers In	40,641	24,000	9,998	18,710	18,986	112,335
Transfers Out	(1,853)	(4,447)	—	(1,381)	—	(7,681)
Total Other Financing Sources	38,788	19,553	9,998	17,329	37,976	123,644
Net Change in Fund Balances	660	(13)	366	(3,307)	38,009	35,715
Fund Balances, Beginning of Year	59,787	75	24,394	11,816	—	96,072
Fund Balances, End of Year	$ 60,447	$ 62	$24,760	$ 8,509	$38,009	$131,787

INTERNAL SERVICE FUNDS FINANCIAL STATEMENTS

Internal Service Funds account for the operations of those State agencies that provide goods and services to other State agencies and governmental units on a cost-reimbursement basis. The Internal Service Funds consist of the following:

State Building Fund The Fund operates and maintains the primary State government office building complex and related facilities. These facilities are leased to the State agencies that occupy the facilities.

Information Services and Communications The Fund is responsible for establishing, developing, and improving data-processing functions, for promulgating standards for the utilization of data-processing equipment, and for promoting the effective and efficient operation of the legislative, executive, and judicial branches of State Government. Costs are recovered through service charges to user agencies.

Travel Management The Fund, a central motor pool responsible for the storage, maintenance, and repairs of State-owned vehicles and aircraft, is maintained by the Purchasing Division of the Department of Administration. User agencies are billed for leasing such vehicles and for use of aircraft.

Investment Management Board The Board serves as the Trustee to provide prudent fiscal administration, investment, and management of the Consolidated Pension Fund and the State's operating funds.

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2004
(Expressed in Thousands)

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Assets:					
Current Assets:					
Cash and Cash Equivalents	$ 648	$2,009	$ 1,464	$3,809	$ 7,930
Receivables, Net	24	105	—	2,367	2,496
Due from Other Funds	147	3,447	654	—	4,248
Due from Component Units	—	45	55	—	100
Inventories	138	399	—	—	537
Other Assets	77	29	1	85	192
Restricted Assets:					
Cash and Cash Equivalents	—	—	1,944	—	1,944
Total Current Assets	1,034	6,034	4,118	6,261	17,447
Noncurrent Assets:					
Restricted Assets:					
Cash and Cash Equivalents	26,468	—	—	—	26,468
Capital Assets, Net	46,147	519	9,543	66	56,275
Total Noncurrent Assets	72,615	519	9,543	66	82,743
Total Assets	73,649	6,553	13,661	6,327	100,190
Liabilities:					
Current Liabilities:					
Accounts Payable	512	1,188	4	2,724	4,428
Accrued and Other Liabilities	91	144	15	—	250
Due to Other Funds	41	48	16	—	105
Due to Component Units	—	2	1	—	3
Capital Leases	752	24	4,220	—	4,996
Total Current Liabilities	1,396	1,406	4,256	2,724	9,782
Noncurrent Liabilities:					
Capital Leases	3,387	100	4,740	—	8,227
Compensated Absences	836	2,584	372	—	3,792
Total Noncurrent Liabilities	4,223	2,684	5,112	—	12,019
Total Liabilities	5,619	4,090	9,368	2,724	21,801
Net Assets:					
Invested in Capital Assets, Net of Related Debt	42,008	519	583	66	43,176
Restricted for Capital Projects	21,783	—	—	—	21,783
Unrestricted	4,239	1,944	3,710	3,537	13,430
Total Net Assets	$68,030	$2,463	$ 4,293	$3,603	$ 78,389

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Operating Revenues:					
Charges for Services	$10,113	$22,475	$8,960	$15,767	$57,315
Operating Expenses:					
Cost of Sales and Services	11,095	21,684	4,143	13,420	50,342
General and Administration	757	1,560	314	2,323	4,954
Depreciation and Amortization	2,107	490	4,645	31	7,273
Total Operating Expenses	13,959	23,734	9,102	15,774	62,569
Operating Loss	(3,846)	(1,259)	(142)	(7)	(5,254)
Nonoperating Revenues (Expenses):					
Gain on Sale of Equipment	—	—	179	—	179
Investment Earnings	120	—	9	27	156
Interest Expense	(253)	—	(396)	—	(649)
Other Nonoperating Revenues	9	—	65	—	74
Total Nonoperating Revenues (Expenses)	(124)	—	(143)	27	(240)
Income (Loss) Before Contributions and Transfers	(3,970)	(1,259)	(285)	20	(5,494)
Capital Contribution	213	—	—	—	213
Transfers In	11,271	—	—	—	11,271
Transfers Out	(1,009)	—	—	—	(1,009)
Total Contributions and Transfers	10,475	—	—	—	10,475
Change in Net Assets	6,505	(1,259)	(285)	20	4,981
Net Assets, Beginning of Year	61,525	3,722	4,578	3,583	73,408
Net Assets, End of Year	$68,030	$ 2,463	$4,293	$ 3,603	$78,389

Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Cash Flows from Operating Activities:					
Receipts from Customers	$ 10,571	$ 23,034	$ 9,607	$ 16,153	$ 59,365
Payments to Suppliers	(7,484)	(14,355)	(3,316)	(14,691)	(39,846)
Payments to Employees	(4,101)	(8,109)	(948)	(1,597)	(14,755)
Net Cash Provided by (Used for) Operating Activities	(1,014)	570	5,343	(135)	4,764
Cash Flows from Noncapital Financing Activities:					
Transfers In	11,271	—	—	—	11,271
Transfers Out	(1,009)	—	—	—	(1,009)
Other Nonoperating Revenue	9	—	—	—	9
Net Cash Provided by Noncapital Financing Activities	10,271	—	—	—	10,271
Cash Flows from Capital and Related Financing Activities:					
Capital Contribution	213	—	—	—	213
Proceeds from Sale of Capital Bonds and Other Debts	—	126	1,944	—	2,070
Repayment of Capital Debt	(1,328)	(35)	(4,622)	—	(5,985)
Interest Paid on Capital Debt	(256)	—	(422)	—	(678)
Acquisition and Construction of Capital Assets	(656)	(49)	32	—	(673)
Proceeds from Sale of Capital Assets	—	—	401	—	401
Net Cash Provided by (Used for) Capital and Related Financing Activities	(2,027)	42	(2,667)	—	(4,652)
Cash Flows from Investing Activities:					
Purchase of Investments	(230)	—	—	—	(230)
Proceeds from Sale of Investments	175	—	—	—	175
Investment Earnings	120	—	9	26	155
Net Cash Provided by Investing Activities	65	—	9	26	100
Net Increase (Decrease) in Cash and Cash Equivalents	7,295	612	2,685	(109)	10,483
Cash and Cash Equivalents, Beginning of Year	19,821	1,397	723	3,918	25,859
Cash and Cash Equivalents, End of Year	$27,116	$ 2,009	$ 3,408	$ 3,809	$ 36,342

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities:					
Operating Loss	$(3,846)	$(1,259)	$ (142)	$ (7)	$(5,254)
Adjustments to Reconcile Operating Loss to Cash Provided by (Used for) Operating Activities:					
Depreciation and Amortization	2,107	490	4,645	31	7,273
Changes in Assets and Liabilities:					
Receivables	458	558	647	385	2,048
Inventories	(37)	(89)	—	—	(126)
Other Assets	30	(19)	—	(58)	(47)
Accounts Payable and Accrued Liabilities	184	389	(2)	(486)	85
Other Liabilities	90	500	195	—	785
Net Cash Provided by (Used for) Operating Activities	$ (1,014)	$ 570	$5,343	$(135)	$ 4,764

PROPRIETARY FUNDS - NONMAJOR

Drinking Water Treatment Revolving Fund Low interest loans are made to communities to assist in financing drinking water infrastructure projects including, but not limited to, treatment, distribution, transmission, and storage. The Fund is to remain in perpetuity by recirculating the principal and interest earned from the loans.

Alcohol Beverage Control Administration The Administration is responsible for the regulation and control of the manufacture, sale, distribution, transportation, storage, and consumption of alcoholic liquors. The Administration shall establish stores and agencies and shall fix uniform prices for the sale of alcoholic liquors.

West Virginia Prepaid College Plan The Plan is responsible for providing individuals and organizations the opportunity to prepay future college tuition and mandatory fees at West Virginia public and private colleges and universities. Prices for contracts are based on weighted average tuition and mandatory fees as determined annually by the Plan's consulting actuaries and its Board. In March 2003, the West Virginia Legislature closed the Prepaid Tuition Plan to new contracts until the Legislature authorizes the plan to reopen. The Prepaid Tuition Plan will continue in existence and no contracts in effect will be affected by the closure. All contract holders will continue to pay any amounts due, including monthly installments, penalties and fees, and the Prepaid Tuition Plan will continue to pay all benefits due.

Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2004
(Expressed in Thousands)

	Business-type Activities Enterprise Funds			
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	Total
Assets:				
Current Assets:				
Cash and Cash Equivalents	$ 8,108	$7,620	$ 374	$ 16,102
Receivables, Net	1,181	6	3,472	4,659
Due from Other Funds	—	36	12	48
Inventories	—	5	—	5
Other Assets	—	24	—	24
Total Current Assets	9,289	7,691	3,858	20,838
Noncurrent Assets:				
Investments	—	—	81,843	81,843
Receivables, Net	25,987	—	7,989	33,976
Capital Assets, Net	—	2,058	—	2,058
Total Noncurrent Assets	25,987	2,058	89,832	117,877
Total Assets	35,276	9,749	93,690	138,715
Liabilities:				
Current Liabilities:				
Accounts Payable	7	1,886	109	2,002
Accrued Tuition Contract Benefits	—	—	4,076	4,076
Accrued and Other Liabilities	—	16	—	16
Due to Other Funds	—	81	—	81
Due to Component Units	8	—	—	8
Compensated Absences	—	—	20	20
Total Current Liabilities	15	1,983	4,205	6,203
Noncurrent Liabilities:				
Accrued Tuition Contract Benefits	—	—	101,265	101,265
Compensated Absences	—	1,088	50	1,138
Total Noncurrent Liabilities	—	1,088	101,315	102,403
Total Liabilities	15	3,071	105,520	108,606
Net Assets:				
Invested in Capital Assets, Net of Related Debt	—	2,058	—	2,058
Restricted for:				
Program Administration	—	—	6	6
Lending Activities	35,261	—	—	35,261
Unrestricted (Deficit)	—	4,620	(11,836)	(7,216)
Total Net Assets (Deficit)	$35,261	$6,678	$ (11,830)	$ 30,109

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Business-type Activities Enterprise Funds			
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	Total
Operating Revenues:				
Charges for Services and Sales	$ 414	$59,803	$ —	$60,217
Tuition Contracts	—	—	357	357
Licenses, Permits, and Fees	—	3,181	—	3,181
Other	—	191	252	443
Total Operating Revenues	414	63,175	609	64,198
Operating Expenses:				
Cost of Sales and Services	—	47,430	—	47,430
Tuition Contract Benefits and Expenses	—	—	9,064	9,064
General and Administration	15	5,398	522	5,935
Depreciation and Amortization	—	154	—	154
Total Operating Expenses	15	52,982	9,586	62,583
Operating Income (Loss)	399	10,193	(8,977)	1,615
Nonoperating Revenues:				
Interest and Other Investment Income	77	—	10,554	10,631
Income Before Transfers	476	10,193	1,577	12,246
Transfers:				
Transfers In	4,036	200	148	4,384
Transfers Out	—	(9,827)	—	(9,827)
Total Transfers	4,036	(9,627)	148	(5,443)
Change in Net Assets	4,512	566	1,725	6,803
Net Assets (Deficit), Beginning of Year	30,749	6,112	(13,555)	23,306
Net Assets (Deficit), End of Year	$35,261	$ 6,678	$(11,830)	$30,109

Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Business-type Activities Enterprise Funds			
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	Total
Cash Flows From Operating Activities:				
Receipts from Customers	$1,351	$ 63,096	$ 5,923	$ 70,370
Payments to Suppliers	—	(49,330)	(162)	(49,492)
Payments to Employees	—	(3,375)	(263)	(3,638)
Payments to Beneficiaries	—	—	(2,165)	(2,165)
Payments for Loans Originated	(3,492)	—	—	(3,492)
Other Operating Cash Receipts	—	111	199	310
Net Cash Provided by (Used for) Operating Activities	(2,141)	10,502	3,532	11,893
Cash Flows from Noncapital Financing Activities:				
Transfers In	4,036	200	165	4,401
Transfers Out	—	(9,817)	—	(9,817)
Net Cash Provided by (Used for) Noncapital Financing Activities	4,036	(9,617)	165	(5,416)
Cash Flows from Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	—	(89)	—	(89)
Net Cash Used for Capital and Related Financing Activities	—	(89)	—	(89)
Cash Flows from Investing Activities:				
Purchase of Investments	—	—	(15,828)	(15,828)
Investment Earnings	77	—	8,459	8,536
Net Cash Provided by (Used for) Investing Activities	77	—	(7,369)	(7,292)
Net Increase (Decrease) in Cash and Cash Equivalents	1,972	796	(3,672)	(904)
Cash and Cash Equivalents, Beginning of Year	6,136	6,824	4,046	17,006
Cash and Cash Equivalents, End of Year	$8,108	$ 7,620	$ 374	$ 16,102

(Continued)

Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)
(Continued)

	Business-type Activities Enterprise Funds			
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	$ 399	$10,193	$(8,977)	$ 1,615
Adjustments to Reconcile Operating Income (Loss) to Cash Provided by (Used for) Operating Activities:				
Depreciation and Amortization	—	154	—	154
Changes in Assets and Liabilities:				
Receivables	(2,555)	33	5,514	2,992
Inventories	—	13	—	13
Other Assets	—	124	—	124
Accounts Payable and Accrued Liabilities	15	(15)	57	57
Tuition Contracts Benefits and Expenses	—	—	6,899	6,899
Compensated Absences	—	—	39	39
Net Cash Provided by (Used for) Operating Activities	$(2,141)	$10,502	$ 3,532	$11,893
Schedule of Noncash Capital and Financing Activities:				
Unrealized Gain on Investments	$ —	$ —	$ 2,095	$ 2,095

PENSION TRUST FUNDS

Pension Trust and Investment Trust Funds These Funds are accounted for in essentially the same manner as proprietary funds and are described below:

Consolidated Public Retirement Board The Consolidated Public Retirement Board consists of seven plans. There are six defined benefit plans as follows: The Public Employees' Retirement System (PERS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers substantially all employees of the State and its component units, as well as employees of participating non-State governmental entities who are not participants of another State or municipal retirement system. The Deputy Sheriff Retirement System (DSRS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers all deputy sheriffs hired on or after July 1, 1998, as well as eligible transferees from PERS. The Teachers' Retirement System (TRS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers all full-time employees of the public school systems in the State, as well as certain personnel of the State-supported institutions of higher education, State Department of Education, and Boards of higher education. The Public Safety Death, Disability and Retirement Fund (PSDDRF) plan is a single-employer defined benefit public employee retirement system. This plan covers all West Virginia State Police hired before July 1, 1994. The State Police Retirement System (SPRS) was implemented to cover all State Police employees hired on or after July 1, 1994. The Judges Retirement System (JRS) plan is a single-employer defined benefit public employee retirement system. This plan covers State judges who elect to participate. The Teachers' Defined Contribution Retirement System (TDCRS) plan is a multiple-employer defined contribution retirement system. This plan primarily covers full-time employees of the State's county public school systems.

Combining Statement of Net Assets
Pension Trust Funds
June 30, 2004
(Expressed in Thousands)

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability, and Retirement Fund
Assets:			
Cash and Cash Equivalents	$ 4,695	$ 465	$ 134
Equity in Pooled Cash Equivalents	—	—	—
Investments:			
Equity in Pooled Investments	3,086,754	1,391,895	117,950
Mutual Funds	—	—	—
Receivables, Net:			
Contributions Receivable	3,232	18,751	—
Participant Loans Receivable	—	16,470	—
Due from Other Funds	1,111	—	—
Other Assets	—	—	—
Total Assets	3,095,792	1,427,581	118,084
Liabilities:			
Accrued and Other Liabilities	132	106	4
Net Assets Held in Trust for Pension Benefits	$3,095,660	$1,427,475	$118,080

State Police Retirement System	Judges' Retirement System	Teachers' Defined Contribution Retirement System	Deputy Sheriff Retirement System	Total Pension Trust Funds
$ 132	$ 20	$ 2,881	$ —	$ 8,327
—	—	2,713	—	2,713
19,750	63,539	—	59,029	4,738,917
—	—	530,144	—	530,144
—	—	9,238	422	31,643
—	—	—	260	16,730
—	—	—	—	1,111
—	—	—	4	4
19,882	63,559	544,976	59,715	5,329,589
—	—	264	—	506
$19,882	$63,559	$544,712	$59,715	$5,329,083

Combining Statement of Changes in Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability, and Retirement Fund
Additions:			
Contributions:			
Members	$ 51,676	$ 50,671	$ 1,129
Employer	115,634	316,121	23,932
Total Contributions	167,310	366,792	25,061
Investment Income:			
Net Appreciation in Fair Value of Investments	419,561	180,387	14,950
Interest	—	3,183	—
Investment Expense	(11,735)	(4,899)	(378)
Net Investment Income	407,826	178,671	14,572
Transfers to (from) Plans	257	(346)	—
Other	—	13,567	527
Total Additions	575,393	558,684	40,160
Deductions:			
Benefit Expense	170,596	316,941	21,386
Refunds of Contributions	6,756	3,417	73
Administrative Expenses	2,321	2,088	30
Total Deductions	179,673	322,446	21,489
Change in Net Assets Held in Trust for Pension Benefits	395,720	236,238	18,671
Net Assets, Beginning of Year	2,699,940	1,191,237	99,409
Net Assets, End of Year	$3,095,660	$1,427,475	$118,080

State Police Retirement System	Judges' Retirement System	Teachers' Defined Contribution Retirement System	Deputy Sheriff Retirement System	Total Pension Trust Funds
$ 1,492	$ 470	$ 24,749	$ 2,339	$ 132,526
1,520	5,329	42,870	2,552	507,958
3,012	5,799	67,619	4,891	640,484
2,400	8,409	42,190	7,823	675,720
—	—	—	38	3,221
(70)	(232)	—	(217)	(17,531)
2,330	8,177	42,190	7,644	661,410
—	89	—	—	—
—	—	—	679	14,773
5,342	14,065	109,809	13,214	1,316,667
84	3,282	—	2,523	514,812
104	—	6,794	308	17,452
13	3	738	35	5,228
201	3,285	7,532	2,866	537,492
5,141	10,780	102,277	10,348	779,175
14,741	52,779	442,435	49,367	4,549,908
$19,882	$63,559	$544,712	$59,715	$5,329,083

INVESTMENT TRUST FUNDS

Investment Trust Funds The investment trust funds account for the external portion of the State's external investment pools. The State maintains two external investment pools, the Cash Liquidity and Money Market pools. The external portion belongs to local governments and municipalities.

Combining Statement of Fiduciary Net Assets
Investment Trust Funds
June 30, 2004
(Expressed in Thousands)

	Cash Liquidity	Money Market	Total
Assets:			
Equity in Pooled Cash Equivalents	$60,626	$131,607	$192,233
Total Assets	$60,626	$131,607	$192,233
Net Assets:			
Held in Trust for External Investment Pool Participants	$60,626	$131,607	$192,233
Total Net Assets	$60,626	$131,607	$192,233

Combining Statement of Changes in Plan Net Assets
Investment Trust Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Cash Liquidity	Money Market	Total
Additions:			
Deposits, Pool Participants	$201,049	$421,787	$622,836
Investment Income:			
Net Appreciation in Fair Value of Investments	723	1,407	2,130
Total Additions	201,772	423,194	624,966
Deductions:			
Withdrawals	221,689	406,801	628,490
Change in Net Assets Held in Trust for External Investment Pool Participants	(19,917)	16,393	(3,524)
Net Assets, Beginning of Year	80,543	115,214	195,757
Net Assets, End of Year	$ 60,626	$131,607	$192,233

AGENCY FUNDS

Agency Funds These Funds are custodial in nature and do not involve measurement of operations. They include the following:

Local Government This includes two funds, the Local Government Fund and the Municipal Bond Commission, which account for taxes collected by the State that are to be remitted to respective local governments.

Other Agency Funds These funds are the Consolidated Investment Pool and other small agency funds which account for various assets and liabilities generated through agency relationships. These include patient and inmate funds and other amounts collected on behalf of third parties, performance bonds required by the Department of Energy and Labor, and other restricted assets held by the Governor's Office of Community and Industrial Development and the Department of Natural Resources.

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2004
(Expressed in Thousands)

	Local Government		Other Agency		
	Local Government	Municipal Bond Commission	Consolidated Investment Pool	Other Agency Funds	Total
Assets:					
Current Assets:					
Cash and Cash Equivalents	$547	$5,970	$ 4,112	$13,091	$23,720
Equity in Pooled Cash Equivalents	—	—	15,398	4,434	19,832
Receivables, Net	—	—	13	4	17
Total Assets	$547	$5,970	$19,523	$17,529	$43,569
Liabilities:					
Current Liabilities:					
Accounts Payable	$ —	$ 6	$ —	$ 3	$ 9
Due to Other Governments	547	5,964	—	—	6,511
Agency Liabilities	—	—	19,523	17,526	37,049
Total Liabilities	$547	$5,970	$19,523	$17,529	$43,569

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Local Government				
Assets:				
Cash	$ 87	$1,177,160	$1,176,700	$ 547
Total Assets	$ 87	$1,177,160	$1,176,700	$ 547
Liabilities:				
Accounts Payable	$ —	$ 5,813	$ 5,813	$ —
Due to Other Governments	87	1,182,973	1,182,513	547
Total Liabilities	$ 87	$1,188,786	$1,188,326	$ 547
Municipal Bond Commission				
Assets:				
Cash	$ 8,608	$ 586,503	$ 589,141	$ 5,970
Total Assets	$ 8,608	$ 586,503	$ 589,141	$ 5,970
Liabilities:				
Accounts Payable	$ 15	$ 234,608	$ 234,617	$ 6
Due to Other Governments	8,593	821,120	823,749	5,964
Total Liabilities	$ 8,608	$1,055,728	$1,058,366	$ 5,970
Consolidated Investment Pool				
Assets:				
Cash	$ 1,603	$ 15,919	$ 13,410	$ 4,112
Equity in Pooled Cash Equivalents	17,562	5,071	7,235	15,398
Accrued Interest Receivable	18	13	18	13
Total Assets	$19,183	$ 21,003	$ 20,663	$19,523
Liabilities:				
Accounts Payable	$ 8	$ 350	$ 358	$ —
Agency Liabilities	19,175	21,361	21,013	19,523
Total Liabilities	$19,183	$ 21,711	$ 21,371	$19,523
Other Agency Funds				
Assets:				
Cash and Cash Equivalents	$14,652	$2,662,051	$2,663,612	$13,091
Equity in Pooled Cash Equivalents	4,694	2,968	3,228	4,434
Accrued Interest Receivable	5	4	5	4
Total Assets	$19,351	$2,665,023	$2,666,845	$17,529
Liabilities:				
Accounts Payable	$ 7	$ 2,676	$ 2,680	$ 3
Agency Liabilities	19,344	2,667,703	2,669,521	17,526
Total Liabilities	$19,351	$2,670,379	$2,672,201	$17,529
Total - All Agency Funds				
Assets:				
Cash and Cash Equivalents	$24,950	$4,441,633	$4,442,863	$23,720
Equity in Pooled Cash Equivalents	22,256	8,039	10,463	19,832
Accrued Interest Receivable	23	17	23	17
Total Assets	$47,229	$4,449,689	$4,453,349	$43,569
Liabilities:				
Accounts Payable	$ 30	$ 243,447	$ 243,468	$ 9
Due to Other Governments	8,680	2,004,093	2,006,262	6,511
Agency Liabilities	38,519	2,689,064	2,690,534	37,049
Total Liabilities	$47,229	$4,936,604	$4,940,264	$43,569

DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS

Nonmajor Component Units

Educational Broadcasting Authority The Authority is responsible for extending educational, cultural, and informational experiences to all citizens of the State through the construction and operation of noncommercial, educational television and radio stations and related facilities. Revenues for operations are derived primarily through private donations, with additional supplements from Federal and State grants.

Jobs Investment Trust The Board is responsible for improving and promoting economic development in the State. It can issue loans to businesses that will stimulate economic growth and provide or retain jobs in the State.

West Virginia State Rail Authority The Authority is responsible for the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State, enabling it to remain a viable mode of transportation for the public sector. The Authority, empowered to issue bonds and set rates for the rail system, additionally receives Federal and State grants to supplement the cost of operations.

Solid Waste Management Board The Board is responsible for the improved collection and disposal of solid wastes, and for encouraging recycling, reuse, or recovery of resources from wastes. The intent of the Board is to become a viable financing mechanism for solid waste projects in West Virginia, and it is empowered to issue bonds and set rate structures at its discretion.

Racing Commission The Commission has full jurisdiction and supervision over all horse and dog race meetings and all persons involved in the holding or conducting of horse or dog race meetings. It can fix the annual fee for permits and registrations. Other racing taxes and fees are set by West Virginia State Code, Chapter 19, Article 23.

Public Defenders Corporation The Corporation is responsible for fulfilling the State's obligation to provide legal representation to eligible clients. Funding of the individual public defender corporations is by appropriation determined by the executive director of the Public Defender Services.

Combining Statement of Net Assets
Nonmajor Discretely Presented Component Units
June 30, 2004
(Expressed in Thousands)

	Educational Broadcasting Authority	Jobs Investment Trust	WV State Rail Authority
Assets:			
Current Assets:			
Cash and Cash Equivalents	$ 1,217	$ 9,558	$ 572
Investments	—	7,669	—
Receivables, Net	296	2,217	83
Due from Primary Government	473	—	506
Inventories	—	—	65
Other Assets	171	561	14
Restricted Assets:			
Cash and Cash Equivalents	—	—	—
Other Restricted Assets	—	—	—
Total Current Assets	2,157	20,005	1,240
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents	8	—	533
Other Restricted Assets	321	—	—
Capital Assets, Net	8,707	1,437	33,493
Total Noncurrent Assets	9,036	1,437	34,026
Total Assets	11,193	21,442	35,266
Liabilities:			
Current Liabilities:			
Accounts Payable	186	9	350
Accrued and Other Liabilities	—	199	117
Due to Primary Government	8	—	153
Deferred Revenue	197	—	—
Capital Leases	97	—	362
Compensated Absences	286	—	57
Total Current Liabilities	774	208	1,039
Noncurrent Liabilities:			
Liabilities Payable from Restricted Assets	—	—	—
Capital Leases	—	14,454	1,223
Compensated Absences	915	—	126
Total Noncurrent Liabilities	915	14,454	1,349
Total Liabilities	1,689	14,662	2,388
Net Assets:			
Investment in Capital Assets, Net of Related Debt	8,611	1,436	31,908
Restricted for Specific Component Unit Purposes	800	—	—
Unrestricted	93	5,344	970
Total Net Assets	$ 9,504	$ 6,780	$32,878

Solid Waste Management Board	Racing Commission	Public Defender Corporation	Total
$2,053	$22,752	$2,270	$ 38,422
—	—	—	7,669
—	460	—	3,056
—	—	—	979
—	—	—	65
1	—	44	791
527	6,557	—	7,084
106	—	—	106
2,687	29,769	2,314	58,172
—	—	—	541
652	—	—	973
38	21	494	44,190
690	21	494	45,704
3,377	29,790	2,808	103,876
20	160	29	754
524	—	124	964
1	5	—	167
—	—	—	197
—	—	2	461
—	—	—	343
545	165	155	2,886
—	6,557	—	6,557
—	—	51	15,728
53	214	474	1,782
53	6,771	525	24,067
598	6,936	680	26,953
38	21	493	42,507
1,085	—	—	1,885
1,656	22,833	1,635	32,531
$2,779	$22,854	$2,128	$ 76,923

Combining Statement of Activities
Nonmajor Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Component Units:					
Educational Broadcasting Authority	$12,033	$ 2,230	$1,244	$—	$ (8,559)
Jobs Investment Trust	2,203	133	—	—	(2,070)
WV State Rail Authority	3,619	1,773	—	76	(1,770)
Solid Waste Management Board	2,097	2,252	—	—	155
Racing Commission	19,530	23,104	—	—	3,574
Public Defender Corporation	12,091	—	—	—	(12,091)
Total Component Units	$51,573	$29,492	$1,244	$76	$(20,761)

General Revenue						
Unrestricted Investment Earnings	Miscellaneous	Payments from the State of West Virginia	Total General Revenue	Change in Net Assets	Net Assets, Beginning of Year	Net Assets, End of Year
$ 3	$1,513	$ 5,638	$ 7,154	$(1,405)	$10,909	$ 9,504
101	—	—	101	(1,969)	8,749	6,780
8	78	3,385	3,471	1,701	31,177	32,878
16	(91)	—	(75)	80	2,699	2,779
68	—	—	68	3,642	19,212	22,854
—	11	12,743	12,754	663	1,465	2,128
$196	$1,511	$21,766	$23,473	$ 2,712	$74,211	$76,923

STATE OF WEST VIRGINIA
JUNE
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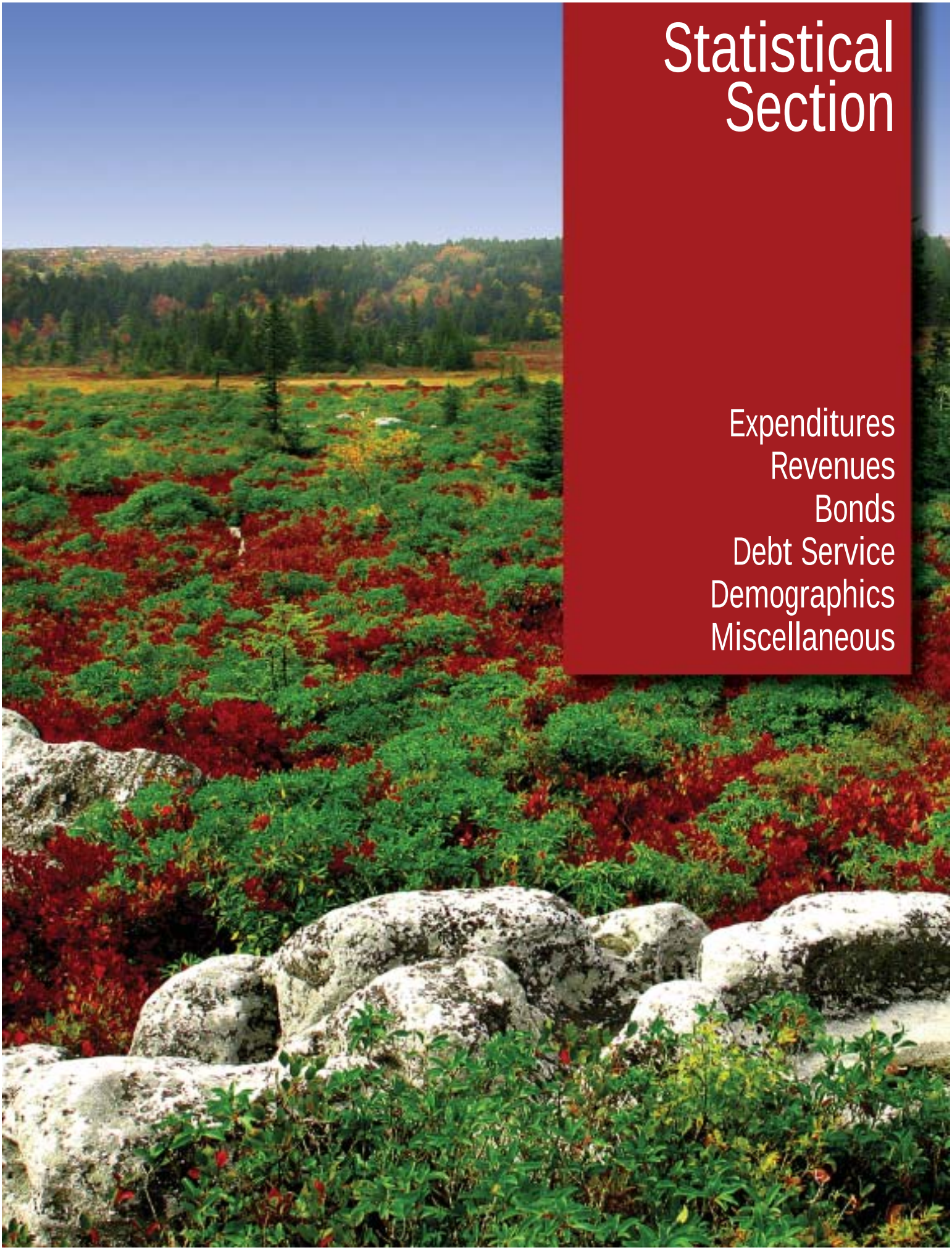

Statistical Section

Expenditures
Revenues
Bonds
Debt Service
Demographics
Miscellaneous

Table 1

Expenditures By Function (Restated)
All Governmental Fund Types
For the Last Ten Fiscal Years

(Expressed in Thousands)

Function	2004	2003	2002	2001
Legislative	$ 30,634	$ 28,901	$ 19,740	$ 37,860
Judicial	81,577	77,816	73,824	65,270
Executive	115,418	113,661	125,116	110,349
Administration	87,834	87,109	75,563	75,329
Commerce*	273,748	234,672	207,759	173,114
Environmental Protection*	118,592	103,566	109,677	110,616
Employment Programs*	40,183	38,401	49,146	40,101
Education	2,323,733	2,316,665	1,822,346	1,775,773
Health and Human Resources	3,056,762	2,709,057	2,612,846	2,322,313
Military Affairs and Public Safety	338,907	293,611	280,315	238,627
Tax and Revenue	44,765	40,845	26,862	100,551
Transportation	531,214	541,219	825,011	407,736
Senior Services	29,230	28,676	30,584	—
Miscellaneous Boards and Commissions	44,680	31,213	24,878	46,975
Capital Outlay	573,295	535,008	447,941	814,191
Debt Service	140,166	136,854	124,576	115,687
Total Expenditures - All Governmental Fund Types	$7,830,738	$7,317,274	$6,856,184	$6,434,492

Prior to fiscal year 2002, this table included expenditures of the State's governmental fund types, which included the General, Special Revenue, Debt Service, and Capital Projects Funds. Beginning in fiscal year 2002, this table includes expenditures of the State's major and nonmajor governmental funds. These changes were necessary due to the implementation of GASB Statement No. 34. The comparability of 2002 expenditure amounts to the 2001 and prior amounts is affected.

*Employment Programs and Environmental Protection were previously reported in Commerce, Labor and Environmental Resources which is now Commerce.

2000	1999	1998	1997	1996	1995
$ 20,056	$ 21,267	$ 18,340	$ 17,805	$ 17,548	$ 18,709
60,326	55,657	51,257	48,967	42,324	38,929
108,915	103,452	104,687	95,161	65,204	49,459
49,602	39,986	41,764	36,285	42,304	25,641
171,260	182,801	171,751	163,532	142,094	112,397
55,949	80,726	76,101	80,883	86,330	100,042
91,720	35,912	31,740	42,611	44,487	33,595
1,721,402	1,596,285	1,562,866	1,482,875	1,452,287	1,319,190
2,276,733	2,093,493	2,127,728	2,028,874	2,028,868	2,056,346
216,189	224,876	184,831	160,700	150,266	110,598
82,994	86,235	75,322	72,323	75,688	66,658
400,893	386,229	364,950	394,555	367,288	328,768
—	—	—	—	—	—
44,829	77,522	69,906	83,028	85,715	159,243
725,123	593,753	586,367	595,910	432,319	464,470
123,080	134,597	100,143	98,497	100,945	92,207
$6,149,071	$5,712,791	$5,567,753	$5,402,006	$5,133,667	$4,976,252

Table 2

Revenues By Source (Restated)
All Governmental Fund Types
For the Last Ten Fiscal Years
(Expressed in Thousands)

Sources	2004	2003	2002	2001	2000
Taxes:					
Personal Income	$1,070,282	$1,038,181	$1,049,532	$1,023,536	$ 985,976
Consumer Sales	963,327	917,072	922,882	878,355	878,690
Severance	211,236	193,680	187,287	194,223	169,914
Corporate Net Income	166,511	179,866	223,303	207,525	223,736
Business and Occupation	176,987	178,364	173,839	178,860	166,883
Medicaid	150,335	143,036	146,812	146,053	134,274
Insurance	99,925	94,045	88,631	80,834	69,110
Other	251,546	191,343	166,741	169,044	165,924
Total Taxes	3,090,149	2,935,587	2,959,027	2,878,430	2,794,507
Department of Highways:					
Gasoline and Motor Carrier Tax	303,934	296,842	300,964	299,326	292,402
License Fees	84,977	88,967	91,373	82,333	88,517
Automobile Privilege Tax	173,225	169,431	180,472	155,623	153,927
Other	7,870	6,388	8,345	438	437
Total Department of Highways	570,006	561,628	581,154	537,720	535,283
Federal Grants	3,119,073	2,868,461	2,733,567	2,527,788	2,284,824
Other Revenue	666,047	679,014	646,178	650,206	705,920
Total Revenues - All Governmental Fund Types	$7,445,275	$7,044,690	$6,919,926	$6,594,144	$6,320,534

Prior to fiscal year 2002, this table included revenues of the State's governmental fund types, which included the General, Special Revenue, Debt Service, and Capital Projects Funds. Beginning in fiscal year 2002, this table includes revenues of the State's major and nonmajor governmental funds. These changes were necessary due to the implementation of GASB Statement No. 34. The comparability of 2002 revenue amounts to the 2001 and prior amounts is affected.

Business Franchise tax was combined with Corporate Net Income tax in 2004.

This table has been revised.

1999	1998	1997	1996	1995
$ 917,765	$ 871,803	$ 810,350	$ 756,367	$ 713,563
852,815	817,406	797,575	762,927	738,547
180,775	204,891	187,997	180,238	170,773
253,219	224,752	253,885	241,436	188,686
182,268	180,475	183,393	188,920	192,707
127,497	124,458	122,439	115,510	111,987
71,765	70,349	71,061	68,818	65,087
170,164	147,394	142,518	130,023	126,196
2,756,268	2,641,528	2,569,218	2,444,239	2,307,546
295,166	291,013	275,400	268,240	276,311
85,446	84,823	77,436	79,571	76,755
143,356	134,354	126,157	120,455	123,723
300	529	283	331	397
524,268	510,719	479,276	468,597	477,186
1,959,378	2,021,678	1,932,627	1,868,401	1,988,496
684,599	700,983	724,850	716,939	522,569
$5,924,513	$5,874,908	$5,705,971	$5,498,176	$5,295,797

Table 3

Ratio of Outstanding General Obligation Bonds to Assessed Value and Net Debt Per Capita For the Last Ten Fiscal Years

(Expressed in Thousands - Except for Ratio and Per Capita Data)

For the Year Ended June 30	Population	Assessed Property Value	General Obligation Bonds				
			Total	Less Debt Service Fund	Net	Per Capita	Ratio of Bonds to Assessed Value
2004	1,815	$53,338,895	$771,879	$60,509	$711,370	$391.94	1.33%
2003	1,811	51,433,353	801,179	59,862	741,317	409.34	1.44%
2002	1,805	49,413,867	833,494	59,956	773,538	428.55	1.57%
2001	1,802	47,830,428	748,459	58,204	690,255	383.05	1.44%
2000	1,807	46,957,023	666,544	59,577	606,967	335.99	1.29%
1999	1,807	45,509,542	593,999	60,235	533,764	295.39	1.17%
1998	1,811	44,550,033	321,450	51,918	269,532	148.83	.61%
1997	1,815	42,639,651	267,165	57,050	210,115	115.77	.49%
1996	1,820	40,242,214	250,115	60,737	189,378	104.05	.47%
1995	1,821	39,319,967	233,170	62,128	171,042	93.93	.44%

Note: All population numbers are estimates from the U.S. Census Bureau.

Source: West Virginia State Treasurer's Office, Department of Tax and Revenue, Survey of Current Business, Bureau of Economic Analysis, U.S. Department of Commerce, and West Virginia University Bureau of Business Research.

This table has been revised.

Table 4

Ratio of Annual Debt Service Expenditures for General Bonded Debt to General Fund Revenues and Expenditures (Restated) For the Last Ten Fiscal Years

(Expressed in Thousands - Except for Ratios)

For the Year Ended June 30	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
2004	$68,112	$7,445,275	0.91%	$7,830,738	0.87%
2003	68,263	5,789,944	1.18%	5,933,970	1.15%
2002	70,524	5,615,628	1.26%	5,271,723	1.34%
2001	64,201	5,326,298	1.21%	4,886,306	1.31%
2000	69,261	5,103,826	1.36%	4,692,979	1.48%
1999	50,436	4,801,308	1.05%	4,391,088	1.15%
1998	52,428	4,750,405	1.10%	4,305,422	1.22%
1997	54,992	4,559,978	1.21%	4,140,777	1.33%
1996	54,834	4,444,846	1.23%	4,039,005	1.36%
1995	60,919	4,414,401	1.38%	4,045,711	1.51%

Table 5

Revenue Bond Coverage
For the Last Ten Fiscal Years
(Expressed in Thousands - Except for Coverage)

Housing Development Fund*

Fiscal Year	Operating Revenue	Direct Operating Expense	Net Revenue Available For Debt Service	Current Year Debt Service Requirements			
				Principal	Interest	Total	Coverage
2004	$236,521	$ 7,141	$229,380	$19,885	$38,695	$58,580	3.92
2003	205,965	10,391	195,574	19,550	47,320	66,870	2.92
2002	172,139	7,434	164,705	21,595	53,329	74,924	2.20
2001	138,058	6,743	131,315	19,185	48,359	67,544	1.94
2000	127,353	6,367	120,986	16,805	46,777	63,582	1.90
1999	147,976	6,307	141,669	14,790	52,635	67,425	2.10
1998	126,659	5,355	121,304	18,130	47,745	65,875	1.84
1997	116,750	4,866	111,884	17,260	43,254	60,514	1.85
1996	111,276	3,687	107,589	17,960	43,287	61,247	1.76
1995	108,243	5,139	103,104	18,015	43,954	61,969	1.66

Water Development Authority*

2004	$15,540	$615	$14,925	$109,965@	$12,435	$122,400	0.12
2003	14,817	688	14,129	3,645	12,525	16,170	0.87
2002	19,225	629	18,596	49,340@	14,028	63,368	0.29
2001	22,525	513	22,012	3,645	15,293	18,938	1.16
2000	21,154	462	20,692	3,120	13,773	16,893	1.23
1999	18,774	494	18,280	4,285	12,063	16,348	1.12
1998	17,548	398	17,150	2,780	12,543	15,323	1.12
1997	17,291	378	16,913	2,765	12,696	15,461	1.09
1996	16,723	377	16,346	2,180	12,238	14,418	1.13
1995	16,217	346	15,871	2,075	12,156	14,231	1.12

Parkways, Economic Development and Tourism Authority**

Fiscal Year	Operating Revenue	Direct Operating Expense	Net Revenue Available For Debt Service	Total Debt Service	Coverage
2004	$57,826	$28,706	$29,120	$12,439	2.34
2003	54,850	27,583	27,267	12,693	2.15
2002	54,821	27,366	27,455	11,240	2.44
2001	54,116	26,292	27,824	11,176	2.49
2000	54,410	26,211	28,199	11,249	2.51
1999	53,437	24,948	28,489	11,115	2.56
1998	52,898	28,330	24,568	11,125	2.21
1997	49,441	25,321	24,120	11,136	2.17
1996	47,327	24,051	23,276	11,138	2.09
1995	45,973	21,479	24,494	11,150	2.20

*Operating revenue includes revenues and principal loan repayments. Both are used for bond repayment.

@This includes retirement of revenue bonds.

**Only total debt service available.

Note: Information is unavailable for Higher Education revenue bonds.

Source: Water Development Authority, Housing Development Fund, Solid Waste Management Board, and Parkways, Economic Development and Tourism Authority.

Table 6

Demographic Statistics
For the Last Ten Calendar Years

Calendar Year	Total Population	Per Capita Personal Income	Unemployment Rate	Median Age
2003	1,810,000	$24,672	6.1%	39.8
2002	1,802,000	23,688	6.1%	39.7
2001	1,801,000	22,881	4.9%	39.3
2000	1,807,000	21,861	5.5%	38.9
1999	1,812,000	20,691	6.6%	38.9
1998	1,817,000	20,234	6.6%	38.6
1997	1,819,000	19,351	6.9%	38.1
1996	1,823,000	18,527	7.5 %	37.7
1995	1,824,000	17,882	7.9 %	37.3
1994	1,820,000	17,395	8.9 %	37.0

Source: Bureau of Employment Programs, West Virginia Development Office, U.S. Bureau of Economic Analysis and Bureau of the Census.

Table 7

Economic Characteristics
For the Last Ten Calendar Years

Calendar Year	Gross State Product	Personal Income
2003	$47,256,000,000	$44,665,000,000
2002	45,518,000,000	43,305,000,000
2001	43,878,000,000	41,893,000,000
2000	42,393,000,000	39,506,000,000
1999	42,057,000,000	37,488,000,000
1998	40,497,000,000	36,738,000,000
1997	38,281,000,000	35,202,000,000
1996	37,220,000,000	33,771,000,000
1995	36,315,000,000	32,611,000,000
1994	34,774,000,000	31,666,000,000

Source: U.S. Bureau of Economic Analysis, West Virginia University Bureau of Business Research.

This table has been revised.

Table 8

Property Values, Retail Sales,
Bank Deposits, and Bank Loans
For the Last Ten Calendar Years
(Expressed in Millions, Except for Bank Number Data)

Calendar Year Ended	Assessed Property Values	Retail Sales	Banks			
			Number	Deposits	Loans	Assets
2003	$53,338	$18,500	74	$14,473	$11,545	$18,979
2002	51,433	16,200	76	15,876	11,559	20,294
2001	49,414	15,300	75	14,317	10,810	18,117
2000	47,830	15,000	70	13,844	11,291	17,455
1999	46,957	14,619	82	17,291	14,792	23,088
1998	45,509	15,077	89	18,758	15,518	23,552
1997	44,550	14,484	100	17,452	13,408	21,590
1996	42,640	14,177	113	18,011	14,742	22,267
1995	40,242	13,616	118	17,138	13,481	21,265
1994	39,320	13,056	122	16,561	12,315	20,238

Source: West Virginia Department of Tax and Revenue and West Virginia Division of Banking, and U.S. Department of Commerce.

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Table 9

Twenty-five Largest Private Sector Employers in West Virginia

	Company
1.	Wal-Mart Associates, Inc.
2.	Charleston Area Medical Center, Inc.
3.	West Virginia University Hospitals/United Health System
4.	Kroger Company
5.	CSX Corporation
6.	Weirton Steel Corporation
7.	American Electric Power
8.	E. I. DuPont de Nemours and Company
9.	Verizon
10.	Allegheny Energy Service Corporation
11.	Consolidation Coal Company
12.	St. Mary's Hospital
13.	Pilgrim's Pride Corporation
14.	Wheeling Hospital, Inc.
15.	Eldercare Resources Corporation
16.	Rite Aid of West Virginia, Inc.
17.	Community Alternatives West Virginia
18.	Lowe's Home Centers, Inc.
19.	Cabell Huntington Hospital, Inc.
20.	Bob Evans Farms, Inc.
21.	Camden-Clark Memorial Hospital
22.	CDG Management, LLC
23.	BB&T Corporation
24.	Mylan Pharmaceuticals, Inc.
25.	Mountaineer Park, Inc.

Source: West Virginia Bureau of Employment Programs, Office of Labor and Economic Research.

Table 10

Miscellaneous Public Education Statistics
For the Last Ten School Years

School Year	Number of Schools	Net Enrollment	Number of Teachers	Pupil-Teacher Ratio
2003-04	784	280,561	19,869	14.1
2002-03	794	281,591	19,925	14.1
2001-02	808	282,232	19,986	14.1
2000-01	818	285,785	20,764	13.8
1999-00	824	290,944	20,923	13.9
1998-99	834	296,559	20,849	14.2
1997-98	839	301,314	20,819	14.5
1996-97	867	304,424	20,888	14.6
1995-96	873	307,508	20,915	14.7
1994-95	884	311,008	20,869	14.9

	Expenditure on Education Per Pupil in Daily Attendance			% Revenue From State Government		
School Year	U.S.	WV	WV Rank	U.S.	WV	WV Rank
2003-04	$8,724	$10,071	14	49.1%	60.0%	14
2002-03	8,383	9,757	12	49.6%	59.7%	13
2001-02	8,087	9,056	14	50.1%	60.1%	14
2000-01	7,640	8,440	16	50.2%	60.1%	14
1999-00	7,316	7,992	16	50.2%	60.8%	13
1998-99	6,251	6,887	14	49.8 %	62.2 %	13
1997-98	6,548	7,110	14	49.1 %	61.6 %	11
1996-97	6,335	6,902	14	48.7 %	62.8 %	12
1995-96	6,133	6,556	15	48.1 %	62.8 %	11
1994-95	5,894	6,285	16	46.0 %	64.2 %	8

Source: West Virginia Department of Education and National Education Association (NEA), "Rankings of the States;" West Virginia Research League.

Table 11

Miscellaneous Higher Education Statistics
For the Last Ten School Years

Public Institutions

School Year	Net Enrollment	Degrees Awarded		
		Undergraduate	Graduate	Total
2003-04	82,444	10,726	2,361	13,087
2002-03	81,080	9,927	2,912	12,839
2001-02	78,315	9,632	2,670	12,302
2000-01	76,050	9,439	2,825	12,264
1999-00	76,751	9,277	2,831	12,108
1998-99	76,307	9,206	2,818	12,024
1997-98	75,920	9,057	2,918	11,975
1996-97	74,836	9,197	2,626	11,823
1995-96	74,816	9,484	2,549	12,033
1994-95	76,064	9,610	2,667	12,277

Private Institutions

School Year	Net Enrollment	Degrees Awarded		
		Undergraduate	Graduate	Total
2003-04	11,065	2,224	133	2,357
2002-03	11,034	2,188	149	2,337
2001-02	10,066	1,860	161	2,021
2000-01	9,808	1,758	167	1,925
1999-00	9,837	1,761	162	1,923
1998-99	10,064	1,857	173	2,030
1997-98	10,271	1,796	196	1,992
1996-97	10,156	1,658	136	1,794
1995-96	10,366	1,799	122	1,921
1994-95	10,193	1,728	125	1,853

Source: Higher Education Policy Commission and National Education Association.

Table 12

Miscellaneous Statistics
June 30, 2004

Date of Statehood	June 20, 1863
Form of Government	Constitutional Representative Government
Branches of Government	Legislative - Executive - Judicial
Land Area	24,282 square miles
Miles of State Highway	34,610
State Police Protection:	
Number of State Police Detachments	71
Number of State Police Troopers	619
Higher Education (State Supported):	
Number of Campuses	27
Number of Students	82,444
Recreation:	
Number of State Parks	36
Area of State Parks	75,862 acres
Number of State Forests	9
Area of State Forests	79,011 acres
Number of Rail Trails	2
Distance of Rail Trails	137 miles
Wildlife Fish and Game Management Areas	93
Acreage of Wildlife Management Areas (Owned and Leased)	348,708 acres

Source: Division of Highways, Division of Public Safety, Higher Education Policy Commission and Division of Natural Resources.

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